Morning report

Friday, 4 March 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,151	0.5%		Last		Overnight Chg		**Australia**		
US Dow Jones	33,795	-0.3%	10 yr bond	97.82		-0.01		90 day BBSW	0.10	0.01
Japan Nikkei	26,577	0.7%	3 yr bond	98.40		-0.03		2 year bond	1.09	0.08
China Shanghai	3,649	-0.1%	3 mth bill rate	99.88		-0.01		3 year bond	1.55	0.10
German DAX	13,698	-2.2%	SPI 200	7,068.0		-58		3 year swap	1.80	0.01
UK FTSE100	7,239	-2.6%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	2.17	0.09
Commodities (close & change)*			TWI	61.3	-	-	61.6	**United States**		
CRB Index	289.2	0.1	AUD/USD	0.7299	0.7348	0.7276	0.7326	3-month T Bill	0.33	0.00
Gold	1,938.40	9.7	AUD/JPY	84.64	84.94	84.12	84.58	2 year bond	1.53	0.02
Copper	10,385.50	187.3	AUD/GBP	0.5446	0.5498	0.5438	0.5491	10 year bond	1.85	-0.02
Oil (WTI futures)	108.51	-2.1	AUD/NZD	1.0749	1.0796	1.0745	1.0777	**Other (10 year yields)**		
Coal (thermal)	345.45	-84.4	AUD/EUR	0.6564	0.6633	0.6557	0.6621	Germany	0.02	-0.01
Coal (coking)	596.67	125.0	AUD/CNH	4.6144	4.6453	4.6019	4.6320	Japan	0.18	0.04
Iron Ore	161.45	3.2	USD Index	97.33	97.95	97.30	97.76	UK	1.30	0.04

Data as at 8:00am AEDT. Change from previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: Investors continued to digest the evolving and fluid conflict in Ukraine. The US Fed Chairman fronted the Senate and reiterated comments from the previous session's testimony. Oil prices took a breather but not before hitting almost US$117 a barrel – the highest since September 2008. And the Aussie dollar was an outperformer overnight – hitting an 11-week high against the USD and a near-4½-year high against the EUR. Share markets were volatile but ended in the red.

Share Markets: Share markets fluctuated, as investors digested unexpectedly weak US services data, the ongoing conflict in Ukraine and fresh Fed remarks. Share markets were weaker at the close. The Dow closed 0.3% lower, the S&P 500 0.8% weaker and the Nasdaq ended 1.6% down.

European share markets recorded deeper falls. The major European equity indices were between 1.8% and nearly 4% softer overnight.

The ASX 200 index rose 35 points yesterday (or +0.5%) and has held up relatively well against a backdrop of heightened risk aversion due to the conflict in Ukraine. Higher commodity prices are supporting mining and related shares in the ASX 200.

Interest Rates: US bond yields had relatively more modest moves overnight after huge shifts in recent sessions. The US 2-year yield rose 2 basis points whilst the 10-year yield retreated 2 basis points, causing a flattening of the yield curve. Bond investors are balancing the prospect of Fed rate hikes with the longer-term consequences of war in Ukraine.

Moody's cut Russia's credit rating to 'junk' yesterday as mounting sanctions weigh. This follows a similar move from Standard and Poor's earlier in the week.

The Australian 3-year government bond yield (futures) rose from 1.56% to 1.62%, while the 10-year yield rose from 2.18% to 2.23%. The first RBA rate continues to be fully priced for July 2022.

Foreign Exchange: The Australian dollar outperformed overnight, scaling to an 11-week high of 0.7348, as higher commodity prices underpin demand for the AUD. Since the invasion of Ukraine when the AUD/USD briefly fell to a low of 0.7095, the AUD has gained around 3.5 US cents. Importantly, it appears set to break out of a trading range it has been stuck in since late last year. It is trading near a key resistance level now and if it pierces this level, the AUD/USD appears set to move above US 74 cents in the near term.

The AUD has also made big moves against the EUR with EUR demand hit hard by the conflict in Ukraine. EUR/USD has kept moving lower since the invasion in Ukraine started, overnight dropping to a low of 1.1064 – lowest since mid February of 2020.

The AUD/EUR pair hit a high overnight of 0.6633 – the highest in almost 4½ years (since 24 October 2017). It has lifted from around 0.6350 when the conflict began in Ukraine. Upside risks to AUD/EUR remain in the short term.

The USD index was well supported overnight and rose to a high of 97.95 – the highest since 1 June 2020.

Commodities: Oil took a bit of a breather on the possibility of an Iran nuclear deal after earlier rising to a high of US$116.57 a barrel (WTI price) - the highest level since September 2008. Oil is set to move higher if Russian supply continues to be disrupted.

Wheat futures continued to surge overnight, hitting a new record high of US$1289 a bushel. Wheat prices have jumped more than 46% since Russia invaded last Thursday.

Gold, iron ore and copper firmed, while thermal coal fell from a record high.

Australia: Building approvals dropped to their lowest level since June 2020, stopping just 1.5% shy of the pandemic-era trough. Approvals plunged a whopping 27.9% in January – the largest monthly fall in the history of the series going back to 1983.

Building approvals have now shed 45.1% from their peak in March 2021, following a spectacular run up in approvals underpinned by unprecedented fiscal and monetary stimulus. Private-sector houses fell 17.5% in the month, the second largest fall on record.

The rapid rise in Omicron infections in January is the catalyst for the sharp decline. Millions of Aussies were forced into isolation, causing major disruptions across the economy. The construction industry was not immune.

The trade surplus widened to $12.9 billion in January, from a revised surplus of $8.8 billion in December. The result was well above expectations of a $9.1 billion surplus. Exports jumped 7.6% in the month supported by higher commodity prices, while imports dropped 1.6%.

We expect the trade surplus to widen further over the short-term, driven by surging commodities prices as the conflict in Ukraine drives up commodity prices further.

Canada: Bank of Canada (BoC) Governor Tiff Macklen said the BoC is concerned about growing global price pressures. He noted that higher rates are needed to dampen spending growth and said that quantitative tightening would be used to complement rate rises.

China: China's services sector expanded at its slowest pace since August. The Caixin services purchasing managers' index (PMI) dropped to 50.2 in February, from 51.4 in January.

Eurozone: Producer price inflation spiked in January, following slightly softer results over the previous two months. Producer prices jumped 5.2% in the month, up from a revised 3.0% in December. The result was well above consensus expectations of a 2.8% rise. In annual terms, producer prices surged 30.6% – the fastest annual pace of growth in the history of the series, going back to 1982.

The unemployment rate fell to its lowest level since records began in April 1998. The unemployment rate hit 6.8% in January, falling from 7.0% in December.

The Markit services PMI was finalised at 55.5 in February. The figure was revised down slightly from a preliminary print of 55.8 and is solidly above January's result of 51.1.

Russia & Ukraine: Russia bombarded the Ukrainian cities of Kyiv and Kharkiv as Russia's President Putin pushed on with his war. The port city of Mariupol was under heavy attack but was still controlled by Ukraine, according to US official reports.

The two sides reached an understanding on ensuring humanitarian corridors for civilians and agreed to meet for a third time, but there was little prospect of a ceasefire. Putin told French President Emmanuel Macron in a phone call that he would fulfill the goals of his invasion, that everything was going to plan and that things would get worse.

The European Union sought to remove Russia's most-favoured nation status at the World Trade Organisation (WTO), which could further hit Russian exports to the bloc with tariffs.

US President Joe Biden is poised to impose sanctions on several Russian oligarchs by prohibiting their travel to the US and preventing them from transferring assets to spouses or children, people familiar said.

However, Germany's Economy Minister Robert Habeck said the German government opposes a ban on imports of Russian oil, gas and coal.

United States: Fed Chair Powell repeated yesterday's testimony, this time to Senate, reiterating concerns over higher prices, and that he favoured a 25-basis-point initial hike, but would be prepared to tighten more aggressively if needed. He also said that the pace of balance sheet run-off would be set at the following Fed meeting but did want to cap the run-off to avoid volatility in markets.

Loretta Mester, Cleveland's Fed President, also backed a 25-basis-point hike. Mester added that the Fed may need to accelerate the pace and size of rate moves if prices don't retreat as expected.

The Markit services PMI for February eased to 56.5 on the final reading. This result follows a preliminary reading of 56.7.

The ISM services index slipped to 56.5 in February, from 59.9 in January. The outcome was also below consensus forecasts. New orders and employment fell, while prices rose.

Encouragingly, both PMI indexes remain comfortably within expansionary territory (above the 50.0 threshold).

Factory orders increased by 1.4% in February, beating consensus expectations of a 0.7% rise. January's figure was revised up to 0.7%, from a fall of 0.4% previously.

The final figures for durable goods orders were unchanged from the preliminary estimates; growth remained at 1.6% in December.

Initial jobless claims fell to 215k for the week ending February 26, just below consensus expectations of 225k.

Today's key data and events:

NZ ANZ Consumer Confidence Feb prev 97.7 (8am)

JN Job-to-App't Ratio Jan exp 1.15 prev 1.16 (10:30am)

EZ Retail Sales Jan exp 1.5% prev -3.0% (9pm)

US Non-farm Payrolls Chg Feb exp 418k prev 467k (12:30am)

US Unemploy. Rate Feb exp 3.9% prev 4.0% (12:30am)

US Avg Hrly Earnings Feb exp 0.5% prev 0.7% (12:30am)

Times are AEDT. All data forecasts are m/m or q/q and seasonally adjusted unless otherwise specified. Forecasts for Australian data are our forecasts and for other countries they are consensus forecasts.

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