

Tuesday, 5 April 2022

Equities (close & % change)			Sydney Futures Exchange (close & change)					Interest rates (close & change)		
S&P/ASX 200	7,514	0.3%			Last	Overnight Chg		Australia		
US Dow Jones	34,922	0.3%	10 yr bond		97.15	0.04		90 day BBSW	0.25	0.02
Japan Nikkei	27,736	0.3%	3 yr bond		97.46	0.05		2 year bond	1.85	0.01
China Shanghai	3,441	0.9%	3 mth bill rate		99.39	0.03		3 year bond	2.38	0.00
German DAX	14,518	0.5%	SPI 200		7,528.0	50		3 year swap	2.56	0.00
UK FTSE100	7,559	0.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	2.83	0.00
Commodities (close & change)*			TWI		63.7	-	-	64.1	United States	
CRB Index	297.6	4.5	AUD/USD	0.7490	0.7556	0.7483	0.7542	3-month T Bill	0.54	0.03
Gold	1,932.73	7.0	AUD/JPY	91.87	92.75	91.58	92.60	2 year bond	2.42	-0.03
Copper	10,455.25	108.3	AUD/GBP	0.5716	0.5759	0.5711	0.5751	10 year bond	2.40	0.01
Oil (WTI futures)	103.28	4.0	AUD/NZD	1.0835	1.0862	1.0808	1.0858	Other (10 year yields)		
Coal (thermal)	258.65	6.6	AUD/EUR	0.6783	0.6881	0.6776	0.6874	Germany	0.51	-0.05
Coal (coking)	450.00	-30.0	AUD/CNH	4.7720	4.8161	4.7677	4.8063	Japan	0.21	-0.01
Iron Ore	163.50	-0.3	USD Index	98.63	99.08	98.52	98.99	UK	1.55	-0.06

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

Main Themes: US share markets moved higher overnight, underpinned by technology shares. Most commodity prices moved higher overnight. Oil rose by 4%. The rise in commodity prices underpinned demand for the Aussie dollar, which lifted to a 5-month high of 0.7556 ahead of the Reserve Bank meeting later today.

Share Markets: Demand for tech shares drove US share market gains. The Nasdaq jumped 1.9%. The S&P500 index lifted 0.8% and the Dow rose 0.3%. Yesterday, the ASX200 index gained 0.3%.

Interest Rates: The US 2-year treasury yield slipped 3 basis points from the previous close of 2.45%, which was the highest since March 2019. The US 10-year bond yield traded in a range of 2.37% and 2.43% and closed 1 basis point higher to 2.40%. The US 2-10-year curve steepened slightly to -2 basis points.

Interest-rate markets are currently pricing the Fed funds rate to be almost 50 basis points higher at the next FOMC meeting in May.

The Australian 3-year government bond yield (futures) slipped from 2.57% to 2.53%, while the 10-year yield ranged between 2.82% and 2.87%. Interest-rate markets are fully pricing in a 15 basis point rate hike to 0.25% at the Reserve Bank's June meeting.

Foreign Exchange: Commodity-currencies were in demand overnight. The AUD/USD rose to a 5-month

high of 0.7556, up from its low yesterday in Asia trade of 0.7480. The NZD and CAD also appreciated in overnight trade.

Key resistance for the AUD/USD pair sat at around 0.7550. The overnight breach of this level suggests the AUD/USD rally can resume from here and move above 0.7600 in the near term. The 61.8% Fibonacci retracement of the AUD's fall from its February 2021 peak of 0.8007 to its 2022 low of 0.6968 in January sits at around 0.7610 – marking this level as the next key resistance level.

Among the major currencies, the underperformer overnight was the euro. EUR/USD fell from an overnight high of 1.1054 to an overnight low of 1.0961. AUD/EUR rose to a high of 0.6881, as the EUR was sold off and the AUD bid up.

Commodities: Commodity prices were higher overnight, as the possibility of more sanctions on Russia pushed prices up. The West Texas Intermediate futures oil price rose 4%. Gold was also markedly higher.

Australia: The Reserve Bank (RBA) Board meets today. The RBA is likely to hold the cash rate at 0.1%, but it is only a matter of time before the RBA will need to start raising rates. Our core house view is that the RBA will begin a rate-hike cycle in August, but an earlier move in June or July cannot be fully ruled out.

RBA Governor Philip Lowe has pledged patience and

appears reluctant to tighten because he believes inflation isn't sustainable unless wage growth picks up. However, the unemployment rate is at a 13½-year low and at or near full employment and underlying inflation is in the top half of the RBA's inflation target band and set to move higher. The economic environment is ripe for the cash rate to start moving higher.

In economic data released yesterday, inflation expectations surged to their highest level since September of 2008. The Melbourne Institute's inflation expectations gauge jumped by 4.0% over the year to March, compared to 3.5% over the year to February. Increases in the cost of holiday travel and private motoring underpinned the rise in expectations.

Job advertisements increased by 0.4% in March, adding to the 10.9% spike reported in February. The increase takes the number of job ads to the highest level since April 2008, highlighting the strong demand for labour.

Eurozone: Slovenia's Central Bank Chief Bostjan Vasle, said the European Central Bank (ECB) may end eight years of negative interest rates in late 2022 or early 2023. Vasle warned that with inflation soaring and wages showing signs of a stronger move higher, policy makers must be "very careful" to act before further price pressures materialise. He agreed with Dutch's Central Bank Head Klaas Knot's suggestion that net asset purchases could stop as early as July.

United Kingdom: Bank of England's Sir John Cunliffe - the dovish dissenter at the last Monetary Policy Committee meeting - acknowledged that further tightening may be necessary. However, Cunliffe is concerned about high commodity depressing activity and the possibility of medium-term inflation undershooting due to the Ukraine war.

United States: Factory orders fell 0.5% in February, after rising by 1.5% in January. The final report for durable goods orders was a fall of 2.1% in February, which is a bit better than consensus expectations.

Today's key data and events:

JN Nikkei Services PMI Mar Final prev 48.7 (10:30am)

AU RBA Board Meeting (2:30pm)

Cash Rate Target exp 0.10% prev 0.10%

EZ Markit Serv. PMI Mar Final exp 54.8 prev 54.8 (6pm)

UK Markit Services PMI Mar Final exp 61.0 prev 61.0 (6:30pm)

US Trade Bal. Feb exp -\$88.5bn prev -\$89.7bn (10:30pm)

US Markit Serv. PMI Mar Final exp 58.9 prev 58.9 (11:45pm)

US ISM Non-Mfg Mar exp 58.4 prev 56.5 (12am)

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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