Morning report

Wednesday, 8 June 2022

Equities (close & % change)		
S&P/ASX 200	7,096	-1.5%
US Dow Jones	33,180	0.8%
Japan Nikkei	27,944	0.1%
China Shanghai	3,397	0.2%
German DAX	14,557	-0.7%
UK FTSE100	7,599	-0.1%
Commodities (close & change)*		
CRB Index	327.1	0.3
Gold	1,852.37	10.9
Copper	9,748.50	244.0
Oil (WTI futures)	119.41	0.9
Coal (thermal)	369.00	-25.4
Coal (coking)	418.00	3.0
Iron Ore	144.50	-0.1

Sydney Futures Exchange (close & change)				
	Last			**Overnight Chg**
10 yr bond	96.48			0.05
3 yr bond	96.86			0.05
3 mth bill rate	98.55			0.03
SPI 200	7,146.0			45
FX Last 24 hrs	Open	High	Low	Current
TWI	63.3	-	-	63.3
AUD/USD	0.7195	0.7246	0.7157	0.7232
AUD/JPY	94.94	96.14	94.82	95.91
AUD/GBP	0.5742	0.5788	0.5723	0.5745
AUD/NZD	1.1082	1.1162	1.1078	1.1141
AUD/EUR	0.6729	0.6768	0.6709	0.6754
AUD/CNH	4.7886	4.8280	4.7796	4.8231
USD Index	102.40	102.84	102.26	102.34

Interest rates (close & change)		
Australia		
90 day BBSW	1.24	-0.01
2 year bond	2.80	0.18
3 year bond	3.13	0.15
3 year swap	3.56	0.13
10 year bond	3.56	0.07
United States		
3-month T Bill	1.23	0.01
2 year bond	2.73	0.00
10 year bond	2.97	-0.07
Other (10 year yields)		
Germany	1.29	-0.03
Japan	0.25	0.00
UK	2.21	-0.03

Data as at 7:30am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: Equity market sentiment improved in a day of volatile trading as US stock markets ended the session higher. Long-term bond yields declined while the US dollar was slightly weaker against a basket of major currencies.

Share Markets: US equity markets closed higher for a second consecutive day after a choppy session. The S&P 500 closed 1.0% higher, after being down by as much as 1.0% during the trading day. The Nasdaq gained 0.9%, while the Dow Jones was up 0.8%.

The ASX 200 fell by 1.5% yesterday. Futures are pointing to a positive open today.

Interest Rates: Long-term bond yields declined while shorter term yields were unchanged. The US 10-year Treasury yield fell by 7 basis points, to 2.97%, while the 2-year Treasury was unchanged at 2.73%.

The Australian 10-year government bond yield (futures) declined by 5 basis points, to 3.52%. The 3-year government bond yield (futures) fell by 6 basis points, to 3.14%.

Foreign Exchange: The Australian dollar rose against the US dollar as the Reserve Bank (RBA) increased interest rates by a greater-than-expected 50 basis points yesterday. The AUD/USD pair spiked from a low of 0.7160 in the hours before the decision, to a high of 0.7246 immediately after the announcement. The pair later retraced the move in overnight trade, falling to a low of 0.7157, before rising again to close at 0.7232 at the time of writing.

The US dollar was slightly weaker against a basket of major currencies. The USD Index traded between a high of 102.84 and a low of 102.26, before closing at 102.34.

Commodities: Oil rose to near US$120 per barrel. Copper and gold were also higher, while iron ore was broadly unchanged.

Australia: The RBA delivered a rate hike of 50 basis points yesterday, taking the cash rate to 0.85%. It is the biggest move in 22 years. It follows a 25 basis point rate hike in May, which kicked off the RBA's tightening cycle after headline inflation cracked 5.1% per annum in the March quarter.

The consecutive rate rises more than fully unwind the 65 basis points of emergency rate cuts the RBA implemented at the start of the pandemic. And these back-to-back rate hikes, totalling 75 basis points, are the biggest in a two-month window since December 1994.

It's a strong signal that the RBA is prepared to move harder in the fight against inflation. Moreover, it's also consistent with the recent 50 basis point moves from other major central banks, including the US Federal Reserve, the Bank of Canada and the Reserve Bank of New Zealand.

Since the RBA's meeting in May, data has revealed a further drop in the unemployment rate to a 48-year low and an uplift in inflation expectations to a record rate. Moreover, national accounts data last week confirmed a robust economic expansion is underway.

The RBA appears more concerned about inflation. It stated in its board statement today that it expects near-term inflation to be higher than expected a month ago.

Eurozone: German factory orders were much weaker than anticipated in April, falling 2.7% compared to consensus expectations of a mild rise of 0.4%. The result marked the third consecutive monthly decline in factory orders, following a massive 4.2% drop in orders in March. In annual terms, factory orders in Germany are 6.2% lower, the weakest annual reading since July 2020.

Investor confidence improved in June but remained in negative territory. Confidence rose from -22.6 in May, its weakest reading since June 2020, to -15.8 in June 2022. This was above consensus expectations of -21.2.

United Kingdom: Activity in the services sector expanded by more than initially expected, as the final reading of the services PMI was revised up to 53.4 in May. The was up from the initial reading of 51.8. However, despite the upward revision, the outcome was down from the 58.9 final reading in April. A combination of slower growth and higher prices are weighing on the services sector.

United States: A fall in imports from China amid lockdowns in the country, and higher exports, drove a record narrowing of the trade deficit in April. The trade deficit narrowed from a revised $107.7 billion in March to $87.1 billion in April. This was the largest decline in the deficit in dollar terms on record. The outcome was narrower than the $89.5 billion deficit expected by consensus.

Imports declined by 3.4% in the month. Imports from China fell by the most since 2015 as the country imposed strict lockdowns to manage the spread of COVID-19. A moderation in domestic demand also added to weaker imports.

Exports rose by 3.5%, jumping to a record high of $252.6 billion. The drivers of export growth were shipments of industrial supplies and materials, including natural gas, precious metals and petroleum products.

Consumer credit rose by $38.1 billion in April, following a revised $47.3 billion jump in March. The gain was the third straight month of credit growth above $30 billion and drove consumer credit to a new record high. The outcome was above consensus expectations of $35 billion. Elevated inflationary pressures alongside strength in consumer spending drove the increase.

World: The World Bank cut its growth forecasts for 2022, as above-average inflation and below-average growth impact the global economy. The World Bank now expects growth of 2.9% in 2022. This was revised down from its previous estimate of 3.2%, published in April. The April estimate was also revised down from an earlier 4.1% forecast, published in January. President Malpass noted that "even if a global recession is averted, the pain of stagflation could persist for several years". Low- and middle-income countries are expected to be most affected.

Today's key data and events:

JN GDP Q1 Final exp -0.3% prev -0.2% (9:50am)

JN Current Account Apr exp ¥0.5tr prev ¥2.6tr (9:50am)

EZ Ger. Indust. Production Apr exp 1.2% prev -3.9% (4pm)

EZ GDP Q1 Final exp 0.3% prev 0.3% (7pm)

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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