

The week that was

- Surging rate hike expectations and inflation were the primary catalysts for financial markets last week, as beliefs firmed for aggressive and imminent US interest rate rises. Solid macroeconomic data, good corporate earnings and rising geopolitical tensions were also important drivers.
- US consumer prices rose 0.6% in January to be 7.5% higher than a year ago, which was stronger than expected. Core inflation also came in at 0.6% month-on-month, and a steep 6.0% year-on-year. Price pressures were widespread. Comments from several Fed policymakers reinforced market expectations for front-loaded rate hikes, including 50bps hikes.
- In contrast, Reserve Bank of Australia (RBA) Governor Lowe remained dovish in his Parliamentary testimony indicating it was too early to say elevated price pressures will remain and that the RBA will remain “patient” on tightening.
- Bond yields spiked higher. Australian 10-year yields jumped 25bps to 2.21%. TCorp’s 10-year yield rose 26bps to 2.59%. US 10-year yields rose 3bps to 1.94% and German 10-year yields climbed 9bps to 0.30%.
- Global equity markets were largely firmer. The ASX200 increased 1.4%, the European Stoxx600 rose 1.6% and the Shanghai Composite leapt 3.0%. However, the US S&P500 lost 1.8%, weighed down by increasingly steep rate hike expectations. The Australian dollar closed up 0.9% at US\$0.714.

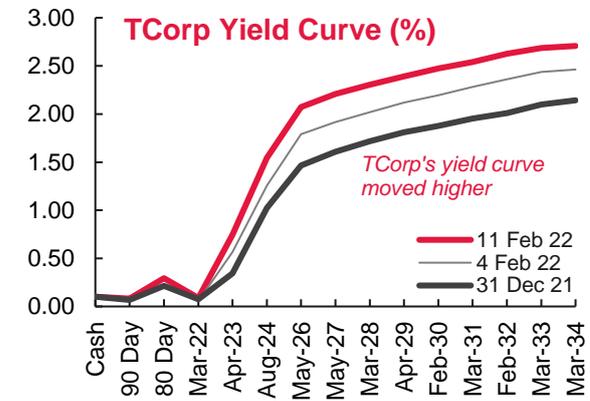
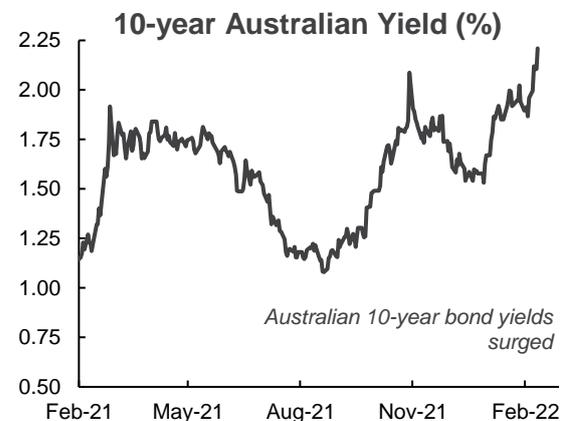
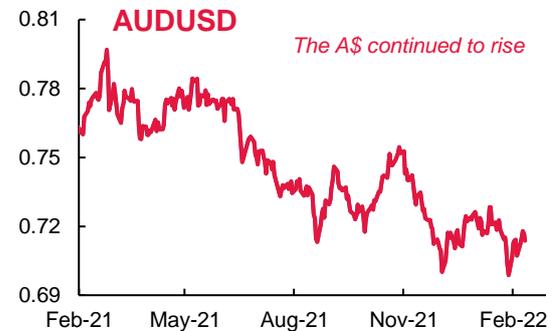
Economic calendar

| Monday 14/02 | |
|------------------------|---|
| Tuesday 15/02 | AU: RBA meeting minutes, Feb EU: ECB President Lagarde speech |
| Wednesday 16/02 | AU: Westpac Leading Index, Jan CH: CPI, Jan, PPI, Jan US: PPI, Jan |
| Thursday 17/02 | AU: Employment, Jan US: FOMC meeting minutes, Jan, Retail sales, Jan, Industrial production, Jan, Business inventories, Dec, NAHB housing index, Feb |
| Friday 18/02 | US: Building permits, Jan, Housing starts, Jan |

The week ahead

- Market focus pivots from inflation to data on the strength and stage of US and Australian economic cycles. In the US, retail, production and inventory data could indicate late-cycle dynamics. In Australia, the employment report is the key. Minutes from recent RBA and US Federal Reserve policy meetings could help clarify the banks’ likely reaction to the data.

Financial markets charts



Financial markets data: Week ending 11 February 2022

| Interest Rates | Close (%) | 1 Week (bps) | | YTD (bps) | |
|---|-----------|--------------|---|-----------|---|
| RBA Cash Rate | 0.10 | 0 | – | 0 | – |
| 90-day BBSW | 0.08 | 1 | ▲ | 1 | ▲ |
| 3-year Australian Bond Yield | 1.67 | 27 | ▲ | 75 | ▲ |
| 10-year Australian Bond Yield | 2.21 | 25 | ▲ | 54 | ▲ |
| 20-year Australian Bond Yield | 2.65 | 23 | ▲ | 38 | ▲ |
| 10-year Australian Break-Even Inflation | 2.24 | 1 | ▲ | -3 | ▼ |
| 10-year Australian Real Yield | -0.03 | 24 | ▲ | 57 | ▲ |
| Fed Funds Rate (lower bound) | 0.00 | 0 | – | 0 | – |
| 2-year US Treasury Yield | 1.50 | 19 | ▲ | 77 | ▲ |
| 10-year US Treasury Yield | 1.94 | 3 | ▲ | 43 | ▲ |
| 30-year US Treasury Yield | 2.24 | 3 | ▲ | 34 | ▲ |
| 10-year German Bund Yield | 0.30 | 9 | ▲ | 47 | ▲ |
| NSW TCorp Bonds | Close (%) | 1 Week (bps) | | YTD (bps) | |
| 6.00% 1 March 2022 | 0.09 | 3 | ▲ | 1 | ▲ |
| 4.00% 20 April 2023 | 0.75 | 18 | ▲ | 40 | ▲ |
| 1.00% 8 February 2024 | 1.33 | 25 | ▲ | 50 | ▲ |
| 5.00% 20 August 2024 | 1.55 | 29 | ▲ | 52 | ▲ |
| 4.00% 20 May 2026 | 2.07 | 28 | ▲ | 61 | ▲ |
| 3.00% 20 May 2027 | 2.21 | 29 | ▲ | 60 | ▲ |
| 3.00% 20 March 2028 | 2.31 | 29 | ▲ | 59 | ▲ |
| 3.00% 20 April 2029 | 2.39 | 27 | ▲ | 58 | ▲ |
| 3.00% 20 February 2030 | 2.47 | 28 | ▲ | 60 | ▲ |
| 2.00% 20 March 2031 | 2.54 | 26 | ▲ | 59 | ▲ |
| 1.50% 20 February 2032 | 2.63 | 27 | ▲ | 62 | ▲ |
| 2.00% 8 March 2033 | 2.69 | 25 | ▲ | 59 | ▲ |
| 3.50% 20 March 2034 | 2.71 | 25 | ▲ | 57 | ▲ |
| 2.75% 20 November 2025 CIB | -0.72 | 17 | ▲ | 32 | ▲ |
| 2.50% 20 November 2035 CIB | 0.58 | 25 | ▲ | 55 | ▲ |
| 10-year NSW TCorp Bond Yield | 2.59 | 26 | ▲ | 62 | ▲ |
| 10-year TCV (Victoria) Spread | 0.02 | 0 | ▼ | -2 | ▼ |
| 10-year QTC (Queensland) Spread | -0.01 | 0 | ▲ | -2 | ▼ |
| Equities | Close | 1 Week | | YTD | |
| S&P/ASX200 (Australia) | 7,217 | 1.4% | ▲ | -3.1% | ▼ |
| S&P500 (US) | 4,419 | -1.8% | ▼ | -7.3% | ▼ |
| FTSE 100 (UK) | 7,661 | 1.9% | ▲ | 3.7% | ▲ |
| DJ Stoxx600 (Europe) | 470 | 1.6% | ▲ | -3.7% | ▼ |
| Nikkei 225 (Japan) | 27,696 | 0.9% | ▲ | -3.8% | ▼ |
| Shanghai Composite (China) | 3,463 | 3.0% | ▲ | -4.9% | ▼ |
| Currencies | Close | 1 Week | | YTD | |
| AUD/USD | 0.714 | 0.9% | ▲ | -1.7% | ▼ |
| EUR/USD | 1.135 | -0.9% | ▼ | -0.2% | ▼ |
| USD/JPY | 115.42 | 0.1% | ▲ | 0.3% | ▲ |
| GBP/USD | 1.36 | 0.2% | ▲ | 0.2% | ▲ |
| US\$ Index | 96.08 | 0.6% | ▲ | 0.4% | ▲ |
| Commodities | Close | 1 Week | | YTD | |
| Brent Oil (US\$/bbl) | 94.44 | 1.3% | ▲ | 21.4% | ▲ |
| Iron Ore (US\$/t) | 149.80 | 3.3% | ▲ | 23.7% | ▲ |
| Coking Coal (US\$/t) | 2,505.50 | -5.7% | ▼ | 22.0% | ▲ |
| Gold (US\$/oz) | 1,858.76 | 2.8% | ▲ | 1.6% | ▲ |

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