Morning Report

Tuesday, 6 February 2024

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,626	-1.0%		Last		Overnight Chg		**Australia**		
US Dow Jones	38,415	-0.6%	10 yr bond	4.19		0.08		90 day BBSW	4.35	0.03
Japan Nikkei	36,354	0.5%	3 yr bond	3.73		0.08		2 year bond	3.78	0.12
China Shanghai	2,833	-1.0%	3 mth bill rate	4.32		0.00		3 year bond	3.68	0.13
German DAX	16,904	-0.1%	SPI 200	7,564.0		-23		3 year swap	3.89	0.05
UK FTSE100	7,613	0.0%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.10	0.12
Commodities (close & change)			TWI	61.4	-	-	61.4	**United States**		
CRB Index	268.2	0.5	AUD/USD	0.6515	0.6520	0.6469	0.6483	3-month T Bill	5.23	0.01
Gold	2,025.38	-14.4	AUD/JPY	96.60	96.76	96.21	96.37	2 year bond	4.47	0.11
Copper	8,267.25	-130.6	AUD/GBP	0.5155	0.5175	0.5144	0.5171	10 year bond	4.16	0.14
Oil (WTI futures)	72.83	0.5	AUD/NZD	1.0732	1.0745	1.0706	1.0710	**Other (10 year yields)**		
Coal (thermal)	123.65	3.8	AUD/EUR	0.6040	0.6051	0.6024	0.6035	Germany	2.32	0.07
Coal (coking)	316.00	0.5	AUD/CNH	4.7012	4.7028	4.6728	4.6803	Japan	0.73	0.05
Iron Ore	124.50	-1.6	USD Index	104.08	104.60	103.99	104.46	UK	4.01	0.09

Data as at 7:55am AEDT. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: US treasury yields jumped sharply for a second straight session on a strong ISM services report and comments from central bank heads suggesting a March rate hike is a long shot. Equities closed down, while the US dollar softened.

Share Markets: US equities started the week on a weak note falling sharply in early trade before recouping some losses to finish the day only modestly lower.

The S&P 500 fell 0.2%, while the Dow Jones and the NADAQ closed down 0.6% and 0.2%, respectively.

The ASX 200 slipped 1.0% in yesterday's trade. Futures are pointing to a weak open this morning.

Interest Rates: US treasuries were sold off sharply on resilient services data, which showed signs of persistent prices pressures in the sector. The data reinforced the view that the Fed is not yet ready to declare victory on inflation.

The 2-year yield jumped 11 basis points to 4.47%, while the 10-year yield jumped 14 basis points to 4.16%. The 2-year yield closed at its highest level of 2024 to date, while the 10-year yield finished at a its highest level in almost two weeks.

Aussie bond futures followed the lead from US markets. The 3-and-10-year (futures) yields each climbed 8 basis points to close at 3.73% and 4.19%, respectively.

Foreign Exchange: The US dollar index jumped to its highest level since mid-November, spurred by the rise in treasury yields. The DXY traded from a low of 103.99 to a high of 104.60 and was trading just south of that level at the time of writing.

The Aussie dollar slid sharply on the stronger greenback. The AUD/USD pair slipped from a high of 0.6520 to an 11-week low of 0.6469, breaking through key support around the 0.6500 level. Today's RBA meeting will likely dictate price action, along with potential developments on policy support in China as policymakers continue attempts to stabilise local equity markets.

No major currency was safe, the British Pound, euro, Swiss Franc, Japanese Yen, Canadian dollar and New Zealand dollar all slipped to multi-week lows against the US dollar.

Commodities: The West Texas Intermediate (WTI) oil price stabilised after sliding almost 9% last week. The WTI future rose to US$72.83 per barrel.

Gold, copper and iron ore all softened.

Australia: The RBA meets today for its first meeting of 2024. It is widely expected rates will be left on hold at 4.35%. The meeting is the first under a new structure involving longer, but less frequent meetings. The quarterly Statement on Monetary Policy will also be released alongside the decision and Governor Michele Bullock will provide a post-meeting press conference shortly following the decision.

Jobs ads rose 1.7% in January, the largest monthly jump since June 2022. Ads have been volatile month on month but have been gradually falling overall. It's too early to say whether the latest jump is a sign of more resilient labour demand, but it's no doubt an area to watch as we move through the first half of 2024.

The goods trade surplus (i.e. excluding services) narrowed to $11.0bn in December, from an upwardly revised $11.8bn in November.

China: Authorities tightened restrictions on institutional investors in an effort to stem its stock market rout. The measures were focused on reducing short-selling and some selling by quantitative trading firms.

The Caixin services purchasing managers' index (PMI) slipped marginally to 50.7 in January, from 52.9 in December. The survey points to mild expansion in the services sector but remains more optimistic than the official PMI, which points to broadly neutral conditions. The Caixin survey covers more small businesses than the official figures.

Eurozone: The producer price index, which measures input cost inflation faced by businesses, fell 0.8% in December, the largest monthly drop since May. In annual terms, the PPI fell a massive 10.6%, from 8.8% previously. The large swings were mostly due to base effects caused by previously elevated energy prices. Both monthly and annual readings came in broadly as expected. When excluding energy and construction items, the PPI was down 0.1% in the month and 0.4% lower over the year. Overall, the result points to further disinflation in the pipeline for the European economy.

United States: Neel Kashkari, president of the Minneapolis Fed branch, said the Fed has more time to gauge economic conditions before cutting rates. Kashkari cited the potential for a higher neutral rate as a key reason to remain patient. Austan Goolsbee, the Chicago Fed boss, echoed recent remarks from Chair Powell, preferring to see more favourable inflation data before considering a rate cut.

The ISM services purchasing managers' index (PMI) surprised to the upside in January, rising to 53.4 - the strongest reading since September. This followed a reading of 50.5 in December and marked the 13th consecutive month of expansion in the services sector.

Delving into the detail, the 'prices paid' sub-index, which measures input cost prices, picked up sharply in the month. This is likely to cause some unease about the sustainability of recent inflation progress. The prices paid index rose to 64.0 from 56.7, hitting its highest level since February 2023. The employment and new orders sub-indices also accelerated pointing to persistent resilience in the US services sector.

The S&P services PMI was finalised at 52.5, down slightly from the flash reading of 52.9.

World: The OECD upgraded its forecasts for global growth in 2023, underpinned by resilience in the US economy. This was partially offset by continued weakness in the euro zone. The OECD expects global growth to print at 2.9% in 2024, up from 2.7 in its previous forecast. This represents a marginal slowdown in growth compared to 2023, which the OECD is forecasting will come in around 3.1%.

Today's key data and events:

AU Real Retail Sales Q4 exp 0.7% prev 0.2% (11:30am)
AU RBA Policy Decision exp 4.35% prev 4.35% (2:30pm)
AU RBA-Statement on Monetary Policy (2:30pm)
AU RBA Gov. Bullock Press Conference (3:30pm)
EZ Ger. Factory Orders Dec (6pm)
EZ Retail Sales Dec prev -0.3% (9pm)

Times are AEST. 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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