Morning Report

Thursday, 11 April 2024

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,848	0.3%		Last		Overnight Chg		**Australia**		
US Dow Jones	38,462	-1.1%	10 yr bond	4.22		0.10		90 day BBSW	4.35	0.00
Japan Nikkei	39,582	-0.5%	3 yr bond	3.80		0.13		2 year bond	3.75	-0.03
China Shanghai	3,174	-0.7%	3 mth bill rate	4.32		0.03		3 year bond	3.70	-0.03
German DAX	18,097	0.1%	SPI 200	7,828.0		-65		3 year swap	4.02	0.02
UK FTSE100	7,961	0.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.12	-0.05
Commodities (close & change)			TWI	62.3	-	-	62.3	**United States**		
CRB Index	297.9	1.1	AUD/USD	0.6628	0.6631	0.6499	0.6513	3-month T Bill	5.24	0.03
Gold	2,334.04	-18.7	AUD/JPY	100.59	100.65	99.39	99.65	2 year bond	4.97	0.23
Copper	9,249.24	-45.0	AUD/GBP	0.5228	0.5231	0.5184	0.5195	10 year bond	4.54	0.18
Oil (WTI futures)	86.35	0.1	AUD/NZD	1.0938	1.0946	1.0875	1.0898	**Other (10 year yields)**		
Coal (thermal)	130.00	-0.5	AUD/EUR	0.6105	0.6108	0.6054	0.6063	Germany	2.44	0.06
Coal (coking)	235.00	-2.0	AUD/CNH	4.7973	4.8011	4.7189	4.7290	Japan	0.81	0.01
Iron Ore	106.45	-0.3	USD Index	104.09	105.30	104.02	105.18	UK	4.15	0.12

Data as at 8:30am AEDT. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: Financial markets were roiled by the stronger-than-expected US inflation report. Paired with other recent data, the risks are that the Fed does not cut rates any time soon. Traders slashed bets of rate cuts as a result.

Moves in markets were sharp. US bond yields spiked with the 2-year yield recording its biggest one-day rise in 11 months and the 10-year yield increasing by the most in 18½ months. The US dollar appreciated sharply, especially against the Japanese yen with USD/JPY the highest since 1990. US stock markets tumbled.

Share Markets: US share markets were a sea of red, as markets pushed out the timing of rate cuts in the wake of the strong print in US inflation. The Dow lost 1.1%, the S&P 500 dropped 1.1% and the Nasdaq lost 0.8%.

Interest Rates: US bond yields spiked after the US inflation report. The US 2-year yield closed 23 basis points higher at 4.97% near the day's highs and the highest rate since late November 2023. The one-day rise was also the biggest in 11 months. There were big moves across the yield curve, including at the longer end. The US 10-year yield jumped 18 basis points to a five-month high of 4.54%. The daily gain was the sharpest since late September of 2022.

Interest-rate markets have pushed out the timing of rate cuts. A rate cut is now not fully priced until November, from September before the meeting. The probabilities of a rate cut attached to the next few meetings are 10% for June (down from 55%), 40% for July and 85% for September.

Foreign Exchange: The US dollar index appreciated sharply overnight, rising from a low of 104.0 to 105.3. The US dollar notably moved higher against the Japanese yen with USD/JPY piercing through the 153.00 level in New York trade – the weakest since 1990, increasing speculation that Japanese officials may intervene. AUD/JPY lifted from 99.39 to 100.65. Against the USD, the AUD/USD plunged from 0.6620 to an overnight low of 0.6499 and currently appears to be trying to form a base around 0.6510-0.6520.

Commodities: Gold lost ground and oil prices inched higher in overnight trade.

Australia: There was no major economic data published yesterday domestically.

Canada: The Bank of Canada (BoC) kept its policy interest rate at 5.00% for the sixth consecutive time and offered no timeline for rate cuts. But BoC Governor Tiff Macklem in a press conference said he was more confident that inflation was heading back to the bank's target – a dovish tilt that may open the door to a rate cut in June. The BoC downgraded its forecast for inflation while upgrading its forecast for economic growth.

New Zealand: The Reserve Bank of New Zealand

(RBNZ) left the Official Cash Rate (OCR) unchanged at 5.50%, as widely expected by markets. The record of the meeting states that the risks to the outlook were viewed as “little changed” since the February Statement. The minutes also noted the potential for a more flexible approach once inflation returns to the target range and when inflation expectations and pricing intentions are no longer elevated. We continue to expect the RBNZ to keep the OCR steady until 2025. The RBNZ’s monetary policy strategy looks unchanged, implying the OCR will remain at 5.50% until 2025. The Group view is that the RBNZ will start cutting the OCR in February of 2025.

United States: The consumer price index (CPI) topped market forecasts for a third straight month on gains in rents and transport costs. The CPI rose by 0.4% in March, higher than the consensus forecast for a rise of 0.3%, and taking the annual rate up 0.3 percentage points to a six-month high of 3.5%.

The core CPI, which excludes food and energy costs, increased by 0.4% last month and the year-on-year rate remained unchanged at 3.8%, defying expectations for a downtick.

The inflation report revealed ongoing strength in rents, the largest components of the CPI. Progress has stalled over the past nine months in reducing rents inflation.

Chicago Fed President Austan Goolsbee, speaking at an event later Wednesday, said policymakers still have a way to go on cooling inflation. He noted that the trade-offs between bringing prices down and keeping employment high are going to be heightened in 2024.

The US president told a news conference that he still believed the Fed would cut rates this year, but said the inflation data released earlier might delay the timing by a month or two beyond his initial expectation.

Former US Treasury Secretary, Larry Summers, even raised the prospect of the next move being a hike.

The minutes of the last Federal Open Market Committee (FOMC) meeting showed members expressed uncertainty about the persistence of elevated inflation and indicated that recent data did not increase their confidence in inflation trending sustainably towards the 2% target. In addition, officials deliberated over whether the greater risk was with monetary policy remaining overly restrictive for an extended period or in the FOMC easing prematurely and failing to achieve the 2% inflation target. Some officials continued to argue that significant factors like housing inflation would begin to decelerate, with "several" suggesting that increases in productivity could enable robust economic growth while inflation continued to decline.

Today’s key data and events:

AU CBA Household Spending Mar prev -0.3% (9am)

AU Cons. Inflation Expectations Apr prev 4.3% (11am)

CH Producer Price Index Mar y/y exp -2.8% prev -2.7% (11:30am)

CH Consumer Price Index Mar y/y exp 0.4% prev 0.7% (11:30am)

EZ ECB Main Refi Rate Decision exp 4.50% prev 4.50% (10:15pm)

UK BoE Bank Conditions Survey (6:30pm)

US Producer Price Index Final Demand Mar (10:30pm)

m/m exp 0.3% prev 0.6%

y/y exp 2.2% prev 1.6%

US Initial Jobless Claims w/e Apr 6 exp 215k prev 221k (10:30pm)

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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