Morning Report

Friday, 16 February 2024

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Equities (close & % change)		
S&P/ASX 200	7,606	0.8%
US Dow Jones	38,773	0.9%
Japan Nikkei	38,158	1.2%
China Shanghai	3,004	1.3%
German DAX	17,047	0.6%
UK FTSE100	7,598	0.4%
Commodities (close & change)		
CRB Index	271.3	1.1
Gold	2,004.19	11.9
Copper	8,224.25	120.3
Oil (WTI futures)	78.15	1.5
Coal (thermal)	123.75	0.3
Coal (coking)	316.50	-0.5
Iron Ore	128.95	-0.5

Sydney Futures Exchange (last & change)				
	Last		Overnight Chg	
10 yr bond	4.18		0.03	
3 yr bond	3.75		0.03	
3 mth bill rate	4.32		0.01	
SPI 200	7,629.0		71	
FX Last 24 hrs	Open	High	Low	Current
TWI	60.7	-	-	60.7
AUD/USD	0.6491	0.6530	0.6478	0.6523
AUD/JPY	97.75	97.86	97.32	97.82
AUD/GBP	0.5167	0.5192	0.5156	0.5178
AUD/NZD	1.0671	1.0683	1.0648	1.0683
AUD/EUR	0.6052	0.6062	0.6039	0.6056
AUD/CNH	4.6899	4.7116	4.6814	4.7071
USD Index	104.72	104.74	104.18	104.29

Interest rates (close & change)		
Australia		
90 day BBSW	4.35	0.00
2 year bond	3.82	-0.13
3 year bond	3.73	-0.13
3 year swap	3.95	-0.06
10 year bond	4.14	-0.13
United States		
3-month T Bill	5.22	-0.01
2 year bond	4.58	0.00
10 year bond	4.24	-0.02
Other (10 year yields)		
Germany	2.36	0.02
Japan	0.73	-0.02
UK	4.05	0.01

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

Main Themes: Markets looked past mixed economic data out of the US, sending stocks and bonds higher ahead of the key US producer price index (PPI) release tonight.

Share Markets: US equities were broadly firmer overnight. The Dow Jones led the major bourses, jumping 0.9%. The S&P 500 and the NASDAQ gained 0.5% and 0.3%, respectively.

The ASX 200 gained 0.8% yesterday. Futures a pointing to a strong open this morning.

Interest Rates: The 2-year treasury yield finished unchanged at 4.58%, rebounding from an intra-day low of 4.50%. The 10-year yield edged down 2 basis points to 4.24% after trading between a high of 4.25% and a low of 4.18%.

Fed rate cuts remain fully priced for the June meeting. The probability of an earlier cut in May is currently sitting around 40% - this is down from near 70% at the start of the week.

Aussie bond futures beat to their own drum overnight. Both the 3-and-10-year (futures) yields rose 3 basis points to 3.75% and 4.18%, respectively.

Interest rate markets are fully pricing an RBA rate cut by September and have just under two 25-basis point hikes priced in by the end of the year.

Foreign Exchange: The US dollar softened against a basket of major currencies, giving back some of its recent gains. The DXY index fell from a high of 104.74 to a low of 104.18 and is currently trading near 104.29.

The Aussie dollar strengthened on the weaker greenback and performed solidly on the major crosses. The AUD/USD pair rose from a low of 0.6478 to a high of 0.6530, returning to its trading range since early February.

Commodities: The West Texas Intermediate (WTI) futures contract rose to US$78.15 despite comments from the International Energy Agency that the oil market will potentially be in surplus this year.

Australia: The number of people employed went sideways over January (+0.5k) while the labour force grew by 22.8k persons. This meant that the number of unemployed increased by 22.3k, resulting in the unemployment rate ticking up to 4.1%, from the 3.9% in December. This was the first time the unemployment rate has been above 4.0% in two years.

The January outcome came with a caveat, with the ABS warning that shifting seasonal patterns, which are yet to be fully captured in its seasonal adjusted estimates, have likely contributed to the weak outcome.

However, the underlying trend is unambiguously soft. Most telling, the number of hours worked continued to slide - over the last six months, in annualised terms, hours worked have declined by 8.2%, the sharpest fall on record outside of covid (going back to 1979).

Looking ahead, as labour demand and supply continue to move into balance, tightness in the labour market will continue to fade. Given how sharp the turnaround in hours worked has been over the past six months there is increasingly limited scope for labour demand adjustment to come purely from hours worked alone.

Japan: GDP growth surprised meaningfully to the downside in the December quarter. Annualised GDP growth printed at -0.4% in the quarter, compared to expectations for a 1.1% gain. Quarterly growth did improve on the September quarter, but the result nonetheless underwhelmed, supporting the Bank of Japan's (BoJ) stimulatory policy stance. Both household consumption and business investment came in below expectations.

Eurozone: The trade surplus narrowed to €13.0bn in December from an upwardly revised €15.1bn surplus in November.

New Zealand: The net migration intake accelerated to 7.3k in December. November's reading was also revised sharply higher from 2.7k to 6.9k. Despite the monthly acceleration, annual growth in migration edged down to 127k from 132k – potentially signalling that the migration surge may have passed its peak.

United Kingdom: Economic growth in the December quarter was weaker than expected. The UK economy contracted 0.3% in the quarter, compared to expectations for a slightly more modest 0.1% contraction. The quarterly result marks the second consecutive negative GDP print – meeting the criteria for a shallow technical recession. In annual terms, the economy contracted 0.2%, compared to a 0.2% expansion over the year to the September quarter.

Household and public spending came in weaker then expected, while business investment surprised to the upside. The weak result puts the Bank of England (BoE) in a precarious situation. Despite rapid progress, inflation remains elevated, wage pressures appear sticky, and the economy is slowing rapidly.

United States: Retail sales dropped the most in almost a year in January, falling 0.8% from a downwardly revised 0.4% gain in December. The slide in spending was four times larger than expected by consensus.

Nine of 13 categories posted decreases, led by building materials stores and auto dealers.

The control group, which feeds into personal consumption expenditure in the GDP figures, also underwhelmed, falling 0.4% compared to consensus expectations for a 0.2% gain.

Industrial production fell 0.1% in January, compared to expectations for a 0.2% gain. This was the first monthly fall in production in three months and was driven by declines in the output of motor vehicles, machinery and metals.

The New York Fed Empire manufacturing survey improved dramatically in February. The index rose from -43.7 in January to -2.4 in February. The Philadelphia Fed business survey also improved in February. The index measure of business conditions rose to 5.2, from -10.6 in January. This was the strongest reading since August.

Business inventories expanded by 0.4% in December. This followed two consecutive 0.1% contractions in October and November.

Homebuilder sentiment climbed to a six-month high in February as buyers continue to take advantage of a fall in mortgage rates which has coincided with lower long-end bond yields. The NAHB housing market index firmed to 48 from 44 in January.

Today's key data and events:

UK Retail Sales Jan exp 1.5% prev -3.2% (6pm)

US Housing Starts Jan exp -0.2% prev -4.3% (12:30am)

US Building Permits Jan exp 1.4% prev 1.9% (12:30am)

US PPI Final Jan y/y exp 0.6% prev 1.0% (12:30am)

US UoM Cons. Sentiment Feb exp 80.0 prev 79.0 (2am)

CH Current Account Q4 prev US$62.8bn (Sun 18 Feb)

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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