Morning Report

Friday, 19 April 2024

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Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,642	0.5%		Last		Overnight Chg		Australia		
US Dow Jones	37,775	0.1%	10 yr bond	4.33		0.04		90 day BBSW	4.36	0.00
Japan Nikkei	38,080	0.3%	3 yr bond	3.87		0.02		2 year bond	3.94	0.02
China Shanghai	3,223	0.1%	3 mth bill rate	4.33		0.00		3 year bond	3.89	0.02
German DAX	17,837	0.4%	SPI 200	7,612.0		-55		3 year swap	4.10	-0.02
UK FTSE100	7,877	0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.33	0.05
Commodities (close & change)			TWI	61.1	-	-	61.1	United States		
CRB Index	295.6	1.2	AUD/USD	0.6437	0.6457	0.6417	0.6422	3-month T Bill	5.24	-0.01
Gold	2,379.04	18.0	AUD/JPY	99.33	99.59	99.21	99.28	2 year bond	4.99	0.05
Copper	9,515.12	124.7	AUD/GBP	0.5168	0.5178	0.5159	0.5163	10 year bond	4.63	0.05
Oil (WTI futures)	82.65	-0.1	AUD/NZD	1.0878	1.0894	1.0869	1.0879	Other (10 year yields)		
Coal (thermal)	143.70	1.2	AUD/EUR	0.6031	0.6047	0.6028	0.6033	Germany	2.50	0.03
Coal (coking)	271.00	0.0	AUD/CNH	4.6625	4.6785	4.6530	4.6559	Japan	0.87	-0.01
Iron Ore	114.60	-2.2	USD Index	105.95	106.18	105.74	106.16	UK	4.27	0.01

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

Main Themes: Hawkish speak from US Fed officials overnight spurred a further sell off in equities and bonds. Locally, strong jobs data yesterday added to market expectations that rate cuts may take longer to arrive in Australia.

Share Markets: The USS&P 500 index fell for a fifth straight session overnight, closing 0.2% weaker. The declines are being driven by market expectations that the US Federal Reserve may only cut two times this year versus three times only a few weeks ago and four times earlier this year. The Nasdaq also closed lower, by 0.5%, whilst the Dow was close to unchanged.

Interest Rates: The sell off in US Treasuries deepened after hawkish remarks from US Federal Reserve Open Market Committee members. The US 2-year yield rose 5 basis points at the close to 4.99% and the 10-year yield also jumped 5 basis points at the close. Interest-rate markets are only fully pricing in 1 rate cut before year's end in the US. A second rate cut before the end of this year is not fully priced. In Australia, rate cut expectations have also been pushed out, especially after yesterday's strong jobs data.

Foreign Exchange: The AUD/USD lifted only modestly after the firm jobs data yesterday in Australia, from around 0.6430 to a high of 0.6457. It could not maintain these gains with the AUD/USD moving lower in afternoon trade. Selling pressures remained overnight. The AUD/USD moved to an overnight low of 0.6417. The AUD remains hostage to rate-cut timing views both domestically and in the US. Hawkish speak from Fed officials combined with stronger economic data in the US, especially inflation and jobs, has led the market to drop expectations of several rate cuts this year in the US. The timing of rate cuts has also been pushed out by markets in Australia, but inflation data locally is not looking as sticky as in the US. We will receive an update next week with the release of the quarterly inflation report.

Commodities: Commodity prices were mostly firmer in overnight trade, including gold, although oil slipped a tad.

Australia: Yesterday's jobs data revealed ongoing resilience in the labour market. Yes, jobs fell nearly 7,000 in March, but that was after a spike of almost 120,000 in the month before! In fact, the labour market data has been incredibly volatile over the past few months. Looking through these month-to-month swings and we're still left with an impression of a tight jobs market. For example, the average jobs gain over the past three months is 40,000 – aka solid. Moreover, the net increase in full-time employment over the past three months is 126,000 - the biggest three-month gain in around a year.

The unemployment rate crept up in March to 3.8%, but this rate is not far off the cyclical low of 3.5%

recorded in late 2022. Again, yet more evidence that the labour market is retaining some tenacity.

Forward-looking indicators of jobs growth – like job advertisements and the number of people applying for a particular job – suggest a softening is in store. But current signs suggest the rise ahead in the unemployment rate will be gradual only.

No surprises then that yesterday's data failed to endorse any urgency for the Reserve Bank to start cutting rates. Australian interest-rate markets have pushed out the timing of the start of a rate-cutting cycle to December this year, from September just two weeks ago. Some of this push back has to do with US economic developments rather than homegrown economic factors. Indeed, Australian economic fundamentals may not support such a late start to a rate-cutting cycle. It makes the release of next week's inflation report even more critical to the outlook for rate.

Eurozone: European Central Bank (ECB) member Holzmann said that "a hesitant Fed" would limit ECB easing. Another ECB member, Vasle, said "the economic situation in the US is at the moment different from the euro area. So, it is a logical consequence that the reaction of monetary policy might also be different. But this divergence has limits. There is a significant probability that the drivers behind a higher or more persistent inflation in the US will also become visible in other parts of the world and also in the euro area".

In terms of data, construction output jumped 1.8% in March, after a modest gain of 0.2% in February.

United Kingdom: Bank of England (BoE) Governor Bailey said inflation risks are lower than in the US. He expects the April inflation data "will show quite a strong drop because we have a particularly unique energy and household energy pricing system in the UK".

United States: Fed member Williams said that there's no rush to lower interest rates. When asked about the possibility of a rate hike, Williams said it is not his baseline expectation, but that it is possible. Fellow Fed member, Bostic, said he's comfortable keeping interest rates steady, reiterating he doesn't think it will be appropriate to cut until near year end.

Sales of previously built homes in the US declined in March, as persistently high mortgage rates continue to constrain buying activity. Existing home sales decreased 4.3% compared with February to a seasonally adjusted annual rate of about 4.2 million, according to data from National Association of Realtors. On an annual basis, sales declined 4.7%.

Initial jobless claims in the latest week continued to suggest the jobs market remains tight. Initial jobless claims remained unchanged at 212,000 and close to consensus forecasts for a result of 215,000.

The Philadelphia Fed business index jumped to 15.5, the highest result since April 2022. The result was also well above consensus and much higher than March's reading of 2.0.

The Conference Board leading index fell 0.3% in March, following a decline of 0.1% in February.

Today's key data and events:

JN Consumer Price Index Mar y/y exp 2.8% prev 2.8% (9:30am)

UK Retail Sales Mar exp 0.3% prev 0.0% (4pm)

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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