

Morning Report

Thursday, 21 March 2024



| Equities (close & % change) | | | Sydney Futures Exchange (last & change) | | | | | Interest rates (close & change) | | |
|-----------------------------------------|----------|-------|-----------------------------------------|---------|-------------|----------------------|---------|---------------------------------|------|-------|
| S&P/ASX 200 | 7,696 | -0.1% | | | Last | Overnight Chg | | Australia | | |
| US Dow Jones | 39,512 | 1.0% | 10 yr bond | 4.05 | | | -0.02 | 90 day BBSW | 4.35 | 0.00 |
| Japan Nikkei | 40,004 | 0.7% | 3 yr bond | 3.58 | | | -0.03 | 2 year bond | 3.80 | -0.01 |
| China Shanghai | 3,228 | 0.6% | 3 mth bill rate | 4.25 | | | 0.01 | 3 year bond | 3.66 | -0.02 |
| German DAX | 18,015 | 0.2% | SPI 200 | 7,744.0 | | | 47 | 3 year swap | 3.83 | -0.04 |
| UK FTSE100 | 7,737 | 0.0% | FX Last 24 hrs | Open | High | Low | Current | 10 year bond | 4.05 | -0.03 |
| Commodities (close & change) | | | TWI | 61.2 | - | - | 61.2 | United States | | |
| CRB Index | 285.5 | -1.3 | AUD/USD | 0.6532 | 0.6587 | 0.6512 | 0.6586 | 3-month T Bill | 5.22 | 0.00 |
| Gold | 2,186.39 | 28.8 | AUD/JPY | 98.54 | 99.66 | 98.48 | 99.62 | 2 year bond | 4.60 | -0.08 |
| Copper | 8,858.84 | -51.2 | AUD/GBP | 0.5135 | 0.5153 | 0.5128 | 0.5151 | 10 year bond | 4.27 | -0.02 |
| Oil (WTI futures) | 81.68 | -1.8 | AUD/NZD | 1.0794 | 1.0833 | 1.0788 | 1.0830 | Other (10 year yields) | | |
| Coal (thermal) | 126.60 | -0.7 | AUD/EUR | 0.6013 | 0.6032 | 0.6004 | 0.6030 | Germany | 2.43 | -0.02 |
| Coal (coking) | 277.50 | -2.5 | AUD/CNH | 4.7117 | 4.7498 | 4.6983 | 4.7497 | Japan | 0.74 | 0.00 |
| Iron Ore | 106.25 | 0.5 | USD Index | 103.81 | 104.15 | 103.38 | 103.40 | UK | 4.02 | -0.04 |

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

Main Themes: The Fed left policy settings unchanged at this morning's meeting as widely expected. Markets responded to comments from Fed Chair Jerome Powell and the updated economic projections from Fed Committee members. Unchanged near-term interest rate forecasts and familiar rhetoric from Powell bolstered the markets conviction of near-term rate cuts.

US equities rallied, the US yield curve bull steepened as yields fell more sharply on shorter-dated treasuries and the US dollar softened. Gold gained, notching up its highest close on record.

Share Markets: The S&P 500 rallied to a fresh record high on news that the Fed's rate cut forecasts remain unchanged. The S&P gained 0.9%, while the Dow Jones and the NASDAQ jumped 1.0% and 1.3%, respectively.

The ASX 200 slipped 0.1% yesterday. Futures are pointing to a solid open this morning on the back of a strong US session.

Interest Rates: Treasury yields slipped across the curve as traders upped their conviction on near-term rate cuts. The 2-year yield slipped 8 basis points to 4.60%, while the 10-year yield fell 2 basis points to 4.27%.

Interest rate markets are pricing around an 85% chance of a Fed rate cut in June, this is up from around 75% immediately ahead of the Fed meeting. The number of rate cuts priced in by the end of

2024 swung from just below three prior to the Fed meeting to just above three at the time of writing.

Moves in Aussie bond futures were fairly benign. The 3-year (futures) yield fell 3 basis points to 3.58%, while the 10-year (futures) yield eased 2 basis points to 4.05%.

Interest rate markets are fully pricing an RBA rate cut by the September meeting and have around an 85% chance of another cut by year-end.

Foreign Exchange: The US dollar initially traded higher in the lead-up to the Fed meeting with the DXY reaching a near 3-week high of 104.15. However, it didn't last long. The DXY traded sharply lower following the Fed meeting touching an intra-day low of 103.38.

The Aussie dollar was the strongest performer of the G-10 currencies. The AUD/USD jumped from a low of 0.6512 to a high of 0.6587, unwinding the fall following Tuesday's RBA meeting. But the Aussie failed to fully regain the falls recorded over the past week. Domestic labour force data today will be key to whether the Aussie can consolidate the overnight gain, consensus is for a strong rebound following a soft January print impact by residual seasonality.

The Japanese Yen was the only G-10 currency to slip against the Greenback. The USD/JPY rose to 151.82, its highest level since November but the Yen regained some ground to trade around 151.22 at the time of writing. The weak Yen performance

following the BoJ's exit from negative interest rate policy suggests the slight improvement in the relative yields between Japan and the rest of the works hasn't yet prompted a significant repatriation of investor funds.

The Aussie dollar jumped to its highest level against the Yen since December 2014 reaching an intra-day high of 99.66.

Commodities: Gold jumped 1.3% following the Fed meeting to close at a fresh record high of US\$2,186 per ounce.

The price of oil slipped for the first time in five sessions. The West Texas Intermediate (WTI) price of oil fell to US\$81.68 per barrel.

Australia: There were no major economic data releases yesterday.

China: Banks left their major benchmark lending rates unchanged following the earlier Peoples' Bank of China (PBOC) decision to leave policy rates on hold. The one-year and 5-year loan prime rates were held at 3.45% and 6.95%, respectively.

Eurozone: Consumer confidence improved a little in March to reach its highest level since February 2022. Consumer confidence edged up to -14.9 from -15.5.

New Zealand: The current account deficit narrowed to \$7.8bn in the December quarter, meeting consensus expectations. This followed a revised \$11.0bn deficit in the September quarter.

United Kingdom: Inflation slowed more sharply than expected in February bolstering investor expectations that the Bank of England (BoE) will be able to reduce interest rates in the coming months.

The consumer price index (CPI) rose 0.6% in February to be 3.4% higher in annual terms. Core inflation, which excludes food and energy, rose 4.5% in annual terms, slowing from a 5.1% gain in January. This was the slowest rate of core inflation since September 2021.

United States: As widely expected, the Federal Open Market Committee (FOMC) left the federal funds rate unchanged at 5.25%-5.50% and will continue the current pace of balance sheet run-off.

Attention was instead squarely on the Summary of Economic Projections (SEP), which outline committee members economic and interest rate forecasts, and comments from Governor Jerome Powell during the press conference.

Heading into the meeting, markets were cautious of the risk that the expected number of rate cuts in 2024 could have been trimmed from three, to two,

given recent upside inflation surprises and ongoing economic resilience. In the event, the median forecast for the federal funds rate was unchanged in 2024, pointing to three 25-basis point cuts by year-end. However, there was a meaningful change to the distribution of individual forecasts. The median forecast for fed funds rate in 2025 and the long-run, or neutral, fed funds rate were revised only slightly higher.

Expectations for economic growth were revised up across the forecast horizon, while the profile for core inflation was also revised higher in the near term.

During the press conference, Jerome Powell continued to underscore that the Board needs more confidence that the inflation target will be sustainably achieved before cutting rates but repeated that the first reduction would likely be "at some point this year". Powell noted that the recent data supported the Feds cautious approach.

Powell also said it would be appropriate to slow the pace of the Fed's balance sheet run off "fairly soon" to "help ensure a smooth transition, reducing the possibility of money markets experiencing stress".

Today's key data and events:

NZ GDP Q4 exp 0.0% prev -0.3% (8:45am)
 AU Labour Force Feb (11:30am)
 Employment Change exp 40k prev 0.5k
 Unemployment Rate exp 4.0% prev 4.1%
 Participation Rate Feb exp 66.8% prev 66.8%
 UK Public Sect. Borrowing Feb prev -£ 17.6bn (6pm)
 EZ Markit Services PMI Mar exp 50.5 prev 50.2 (8pm)
 EZ Markit Mfg PMI Mar exp 47.0 prev 46.5 (8pm)
 UK Markit Mfg PMI Mar exp 47.8 prev 47.5 (8:30pm)
 UK Markit Services PMI Mar exp 53.8 prev 53.8 (8:30pm)
 UK BoE Policy Decision (11pm)
 Bank Rate exp 5.25% prev 5.25%
 US Philad. Fed Index Mar exp -2.8 prev 5.2 (11:30pm)
 US Markit Mfg PMI Mar exp 51.8 prev 52.2 (12:45am)
 US Markit Serv. PMI Mar exp 52.0 prev 52.3 (12:45am)
 US Leading Index Feb exp -0.1% prev -0.4% (1am)
 US Existing Home Sales Feb exp -1.5% prev 3.1% (1am)

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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