Morning Report

Thursday, 7 March 2024

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Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,734	0.1%		Last		Overnight Chg		Australia		
US Dow Jones	38,686	0.3%	10 yr bond	4.01		-0.01		90 day BBSW	4.34	0.00
Japan Nikkei	40,091	0.0%	3 yr bond	3.62		0.00		2 year bond	3.73	-0.05
China Shanghai	3,187	-0.3%	3 mth bill rate	4.35		0.01		3 year bond	3.63	-0.06
German DAX	17,717	0.1%	SPI 200	7,752.0		39		3 year swap	3.85	-0.02
UK FTSE100	7,679	0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.01	-0.08
Commodities (close & change)			TWI	60.9	-	-	60.9	United States		
CRB Index	278.1	2.3	AUD/USD	0.6506	0.6581	0.6493	0.6565	3-month T Bill	5.22	0.01
Gold	2,146.52	18.5	AUD/JPY	97.54	98.21	97.38	98.09	2 year bond	4.56	0.00
Copper	8,421.75	-54.8	AUD/GBP	0.5120	0.5160	0.5114	0.5154	10 year bond	4.11	-0.04
Oil (WTI futures)	79.03	0.9	AUD/NZD	1.0690	1.0719	1.0677	1.0711	Other (10 year yields)		
Coal (thermal)	139.25	-2.1	AUD/EUR	0.5992	0.6032	0.5985	0.6025	Germany	2.32	0.00
Coal (coking)	302.00	-3.3	AUD/CNH	4.6922	4.7424	4.6828	4.7334	Japan	0.72	0.01
Iron Ore	115.85	0.6	USD Index	103.76	103.89	103.20	103.40	UK	3.99	-0.02

Data as at 7:50am AEDT. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: There was a risk on tone overnight with markets buoyed by Fed Chair Powell's comments suggesting that rate cuts are likely "at some point this year."

US equites were higher with the S&P 500 back above 5,100 points in intraday trade. Bond yields declined, while the US dollar eased. The Aussie outperformed, with the Canadian dollar also strengthening as the Bank of Canada's decision to leave rates unchanged was accompanied by somewhat hawkish commentary. Gold continues to surge while the price of oil increased.

Share Markets: Markets were buoyed by Fed Chair Powell's comments overnight. Partial labour market indicators suggest that the economy is slowing but remains strong, also consistent with the Powell's comments that the Fed is not yet in a position to start cutting rates. This data also supports the narrative that is emerging around the US economy having "no landing" – that is moderating inflation with continued solid activity.

The S&P 500 finished 0.6% higher, with tech stocks leading the gains. The index closed a touch above 5,100 points. The NASDAQ closed 0.6% higher, while the Dow Jones was up 0.3%.

The ASX 200 closed 0.1% higher yesterday. Six of eleven sectors were higher, led by financials stocks. Futures are pointing to a positive open this morning.

Interest Rates: Yields slipped across the treasury curve. The 10-year yield slipped 4 basis points to 4.11%, while the 2-year yield remained unchanged.

Interest-rate markets are pricing a 90% chance of a cut in the June meeting, with a cut in the July meeting being fully priced. For 2024, markets are pricing around 90 basis points of cuts by the end of the year.

Australian bond yields largely followed the lead from US markets. The 10-year (futures) yield was 1 basis point lower, at 4.01%. While the 3-year (futures) yield was unchanged.

Interest-rate markets are pricing a 90% chance of a cut by the Reserve Bank of Australia (RBA) in the August meeting, with a cut in the September meeting being fully priced. Markets are pricing around 46 basis points of cuts by the end of the year.

Foreign Exchange: The risk on tone, along with stronger commodity prices, provided the Aussie with a tailwind. The AUD/USD outperformed, pushing past resistance at 0.6527 and 0.6566, before reaching a high on 0.6581. The pair is now trading at around 0.6565.

The US dollar was lower on softer yield support. The DXY traded between a high of 103.89 and a low of 103.20 and is currently trading near 103.40.

Commodities: Gold continued to surge higher, hitting a fresh high of $2,152.25 an ounce in overnight trade.

The West Texas Intermediate (WTI) price of oil increased to US$79.03 per barrel.

Iron ore was higher, while coal and copper were lower.

Australia: The Australian economy toddled along in the second half of 2023, growing by a subdued 0.2% over the December quarter. Growth in economic activity halved over the second half of the year compared with the first half of 2023 (0.5% and 1.0%).

This annual growth rate is below the record 2.6% annual increase in the population, driving a 1.0% annual fall in GDP per capita. Population growth initially supported demand and provided a source of resilience. That now looks to be fading with the drag on incomes from elevated inflation, higher income tax and higher interest payments weighing on spending.

The household sector continues to be under pressure. Eighteen months of declining purchasing power has left consumers battered and bruised. In the December quarter, purchasing power grew (just) for the first time in 1½ years. The data tells the story - consumption eked out a 0.1% gain in the quarter and households lifted their savings as spending essentially came to a standstill. Residential construction activity continues to fall fast, exacerbating the housing challenges.

The government sector and business sector continue to provide a partial offset, with business investment, mining exports and government consumption (which includes cost of living support) adding to growth this quarter.

Business investment (ex-mining) was notable for rising to its highest share of the economy since the mining investment boom, despite the growth rate slowing in the second half of the year.

Labour productivity continued to improve, particularly in domestic services sectors that are at the coalface of the slowdown in consumer spending. Going forward this will reduce labour costs and inflationary pressures, which is consistent with our view that services inflation will continue to ease. It is also consistent with our view that the next move by the Reserve Bank (RBA) will be down. We continued to expect the first rate cut to come in September.

Eurozone: Retail sales increased 0.1% over the month of January, following a revised fall of 0.6% in December. This was broadly in line with market expectations. On a yearly basis, retail sales fell by 1.0%, marking the 16th consecutive month of contraction.

United States: In his testimony before the House Financial Servies Committee, Fed Chair Powell said it will likely be appropriate to lower interest rates “at some point this year,” but made clear that the Fed is not there yet. Powell reiterated that the Fed “does not expect that it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2%.”

Private businesses added 140k jobs in February, following an upwardly revised 111k increase in January. This was slightly below the 150k jobs the market was expecting. Wage growth picked for people who changed jobs, marking the first acceleration since November 2022. For workers who stayed in their job, wages growth slowed to the slowest pace since August 2021.

Job openings/vacancies fell to 8.86 million in January, from a downwardly revised 8.89 million in December. This was broadly in line with the 8.85 million the market was expecting. Despite the fall, job opening remains elevated compared to pre pandemic levels, suggesting that demand for workers remains strong.

United Kingdom: In the annual Budget, the finance minister announced further cuts to personal income tax. The economic forecasts in the Budget have inflation falling below 2% in “a few months” with activity picking up in 2024 and 2025 after a weak 2023.

Canada: The central bank left rates unchanged at 5.0%. The policy statement retained a slightly hawkish tone, with the Governor indicating that it is still "too early to consider lowering the policy interest rate."

Today’s data releases appear on the next page.

Today's key data and events:

AU Trade Balance Jan exp $12bn prev $11bn (11:30am)
AU Housing Finance Jan (11:30am)
 Owner-occupier Finance exp 1.0% prev -5.6%
 Investor Housing Finance exp 1.0% prev -1.3%
 Total Housing Finance Jan exp 1.0% prev -4.1%
EZ Ger. Factory Orders Jan (6pm)
EZ ECB Policy Decision prev 4.5% (12:15am)
US Trade Balance Jan prev -$62.2bn (12:30am)

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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