Morning report

Wednesday, 13 March 2024

Equities (close & % change)		
S&P/ASX 200	7,713	0.1%
US Dow Jones	39,005	0.6%
Japan Nikkei	38,798	-0.1%
China Shanghai	3,204	-0.4%
German DAX	17,965	1.2%
UK FTSE100	7,748	1.0%

Commodities (close & change)		
CRB Index	278.3	0.3
Gold	2,158.34	-24.4
Copper	8,571.00	70.7
Oil (WTI futures)	77.56	-0.4
Coal (thermal)	130.40	-2.9
Coal (coking)	288.50	-6.5
Iron Ore	107.35	-1.9

Sydney Futures Exchange (last & change)	Last	Overnight Chg
10 yr bond	4.01	0.05
3 yr bond	3.63	0.05
3 mth bill rate	4.24	0.02
SPI 200	7,729.0	14

FX Last 24 hrs	Open	High	Low	Current
TWI	61.5	-	-	61.5
AUD/USD	0.6614	0.6639	0.6584	0.6606
AUD/JPY	97.19	97.71	97.01	97.55
AUD/GBP	0.5161	0.5185	0.5156	0.5164
AUD/NZD	1.0720	1.0742	1.0707	1.0741
AUD/EUR	0.6050	0.6067	0.6039	0.6046
AUD/CNH	4.7463	4.7627	4.7344	4.7479
USD Index	102.85	103.18	102.72	102.93

Interest rates (close & change)		
Australia		
90 day BBSW	4.35	0.00
2 year bond	3.75	0.04
3 year bond	3.63	0.05
3 year swap	3.84	-0.02
10 year bond	4.00	0.05
United States		
3-month T Bill	5.22	0.00
2 year bond	4.59	0.05
10 year bond	4.15	0.05
Other (10 year yields)		
Germany	2.33	0.03
Japan	0.77	0.01
UK	3.95	-0.03

Data as at 8:45am AEDT. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: Bond yields were higher as US inflation data came in hotter than expected, suggesting that the last mile of the battle of getting inflation back to the Fed's 2% target will be challenging and may require patience. The US dollar rose against major currencies in line with stronger bond yields, while the Aussie managed to hold on and remain above the 0.6600 handle. Equity investors didn't seem to get the memo as US equities climbed to a fresh record high despite the higher bond yields and stronger inflation result.

Share Markets: Equity markets seemed to beat to their own drum overnight as equity investors shrugged off the stronger-than-expected US CPI result and drove stocks to a fresh record high. The S&P 500 closed up 1.2% on the day. The Nasdaq was the outperformer, gaining 1.5%, while the Dow Jones was 0.6% higher.

European stocks were also higher, with the Euro Stoxx 50 closing up 1.1%.

The ASX 200 ended 0.1% higher yesterday. Futures are pointing to a positive open today, following the lead from US markets overnight.

Interest Rates: Bond yields rose as a strong US CPI report added to risks that the Fed may need to keep interest rates higher for longer, potentially delaying the rate cutting cycle. The US 2-year and 10-year yields both rose 5 basis points, to 4.59% and 4.15%, respectively.

Interest-rate markets are still pricing around 85 basis points of cuts in 2024, with the first cut fully priced for July and a June move at around a 78% chance. This was pared back overnight following the CPI result. A day earlier, markets were pricing an 86% chance of June cut and 90 basis points for 2024.

Australian interest rates mimicked moves in the US. The 3-year and 10-year Australian government bond yield (futures) both rose 5 basis points, to 3.63% and 4.01%, respectively. Markets continue to price the first move from the RBA by August, with almost 50 basis points of cuts (i.e. two 25-basis-point cuts) priced by the end of 2024. This is down slightly from yesterday, when 53 basis points of cuts were priced for 2024.

Foreign Exchange: The US dollar strengthened against major currencies. The DXY Index rose from a low of 102.72 to a high of 103.18. It was trading at 102.93 at the time of writing.

The AUD/USD pair held most of its ground despite a stronger US dollar. The Aussie ranged between a high of 0.6639 and a low of 0.6584, before rebounding to trade at 0.6606 at the time of writing. This is not far from where it opened the session, at 0.6614.

Commodities: Iron ore continued its slide from recent days and weeks, falling to US$107.35 a tonne. Gold also pulled back and ended its incredible recent rally, where it rose for nine consecutive sessions and consistently printed record highs. Gold closed at US$2,158.34 a tonne. Oil and coal were also lower, while copper rose.

Australia: Business conditions rose 3 index points in February, to a reading of +10. This is above the long-term series average of 6.6 index points. The result reversed the fall in January and resulted in the conditions index returns to levels seen in November and December.

The move was driven by gains in the trading and profitability sub-indices. The employment sub-index was also higher, but only slightly, in the month.

Key leading indicators, such as forward orders, continue to suggest that conditions are likely to be under pressure in the early part of 2024. The forward orders index slipped further into negative territory, at -3 index points. This sub-index has been in negative territory for nine of the past 10 months.

Business confidence fell 1 index point to a neutral level of zero – the point that separates optimists from pessimists. Business confidence has been hovering around or below the zero level for the better part of 18 months as economic growth slowed under the weight of restrictive monetary policy and businesses became less confident about the outlook.

Measures of price increases were either unchanged or slightly higher in the month. Labour and purchase cost growth was unchanged from the prior month, at 2.0% and 1.8% in quarterly terms, respectively. However, price growth was stronger in February. Final prices grew at a quarterly pace of 1.3% in the month, up from 1.1% in the prior month. Retail prices rose 1.4% in quarterly terms in February, following growth of 0.9% and 0.4% in January and December, respectively.

The reacceleration of growth in prices is unlikely to be a concern for the Reserve Bank (RBA) at this stage. However, it adds weight to views that the path back to the RBA's 2-3% target range will not be straightforward and may be a bumpy one.

Japan: Producer prices rose 0.2% in February, following a flat outcome in January. This led to the annual pace of producer inflation rising to 0.6% in the year to February. This followed an outcome of 0.2% in January and was above consensus expectations of 0.5%.

Export prices were 1.0% higher in annual terms in February, while import prices dropped a material 8.4%.

Looking at price growth by category, prices for beverage & food (4.0%), transport equipment (2.2%), and petroleum & coal products (7.0%) were higher in annual terms. Utilities prices (-21.9%) and chemicals & related products (-0.4%) were lower.

There was more speculation about whether Bank of Japan officials are considering increasing rates as soon as the March meeting – potentially beginning the exit from the Bank's long-standing period of extremely accommodative monetary policy. Wage negotiations later this week will be key to the decision.

New Zealand: Total card spending fell 1.9% in February, following a 1.8% gain in January. Retail card spending was also weak, falling 1.8% in the month. Spending levels have been effectively flat for the past year, despite the population growing by almost 2.8%. Spending has been negatively impacted by reduced household spending power, reflecting elevated inflation and higher interest rates. By category, discretionary spending has been most heavily impacted, while essential spending has been more resilient, supported by the growth in the population.

United Kingdom: The unemployment rate rose to 3.9% in the three months to January. This was above the previous result and stronger than expected – both at 3.8%.

Employment declined in the quarter, falling by 21k over the November to January period. This partly unwound the strength over the three months to December, where employment grew by 72k. The outcome was below expectations, which centred on an additional gain of 5k.

Average weekly earnings (ex. bonuses) rose 6.1% over the quarter, down from the previous reading of 6.2% and below expectations for an unchanged result.

United States: The consumer price index came in hotter-than-expected for a second consecutive month. The hints that the January reading may not have been a one-off and adds support to the caution displayed by many Fed members as they have suggested that the path back to 2% is unlikely to be smooth and will take time.

The monthly pace of headline inflation was 0.4% in February. This represented an acceleration from the 0.3% pace last month but was in line with expectations. In annual terms, headline inflation accelerated to 3.2% in February – up from 3.1% in January and above expectations for an unchanged reading.

Core inflation (excluding volatile food and energy prices) was also stronger than expected. Core inflation came in at 0.4% in the month, unchanged from last month and above expectations for a slow down to 0.3%. This resulted in the annual pace slowing by less than expected in February, to 3.8%, from 3.9% in January and above expectations of 3.7%.

The outcome resulted in the three-month annualised measures moving back above 4%, to 4.0% and 4.2%, respectively, for both headline and core. This was the strongest outcome for core inflation since June and compares with three-month annualised measures of 2.8% and 4.0% last month.

The often quoted “super-core” measure – i.e. core services ex. housing rose 0.5% in February, down from 0.8% last month. However, the annual pace of this measure remained at 4.3%.

In an early sign that the disinflation from improved supply chains across global goods prices may be coming to an end, core goods prices rose for the first time since May. Improved supply chains have been a key driver of disinflation to date and many have suggested that the “last mile” of getting inflation back to target will be more challenging once the disinflationary pulse from these improved supply chains slows.

The NFIB small business optimism slowed to 89.4 in February – not far from its lowest level so far in this cycle of 89.0 in April 2023. This was down from 89.9 in January and below expectations, which centred on an improvement to 90.5.

Today’s key data and events:

EZ Industrial Production Jan exp -1.8% prev 2.6% (9pm)

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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