

Friday, 9 February 2024

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,639	0.3%			Last	Overnight Chg		Australia		
US Dow Jones	38,726	0.1%	10 yr bond	4.15		0.03	90 day BBSW	4.34	0.00	
Japan Nikkei	36,863	2.1%	3 yr bond	3.68		0.03	2 year bond	3.77	0.02	
China Shanghai	3,004	1.3%	3 mth bill rate	4.32		0.01	3 year bond	3.67	0.02	
German DAX	16,964	0.2%	SPI 200	7,590.0		-5	3 year swap	3.90	0.01	
UK FTSE100	7,595	-0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.11	0.02
Commodities (close & change)			TWI	61.0	-	-	61.0	United States		
CRB Index	273.6	3.2	AUD/USD	0.6519	0.6532	0.6481	0.6492	3-month T Bill	5.23	0.00
Gold	2,033.41	-1.9	AUD/JPY	96.59	97.04	96.53	96.93	2 year bond	4.46	0.03
Copper	8,217.00	-95.3	AUD/GBP	0.5164	0.5170	0.5140	0.5145	10 year bond	4.15	0.03
Oil (WTI futures)	76.50	2.6	AUD/NZD	1.0673	1.0678	1.0647	1.0656	Other (10 year yields)		
Coal (thermal)	125.10	1.6	AUD/EUR	0.6052	0.6058	0.6020	0.6024	Germany	2.35	0.04
Coal (coking)	316.00	3.0	AUD/CNH	4.7015	4.7085	4.6780	4.6851	Japan	0.71	-0.01
Iron Ore	127.20	-1.3	USD Index	104.06	104.43	103.96	104.13	UK	4.05	0.06

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 were broadly subdued and trading ranges were narrow during a session with little in the way of major news to drive market direction. The S&P 500 managed to very briefly crack the 5,000 mark for the first time. Bond yields ended slightly higher, as did the US dollar, while the Aussie was down.

Share Markets: US equities advanced marginally and the S&P 500 narrowed in on hitting an index level of 5,000 for the first time. After hitting an intra-day high of 4,999.89 yesterday it managed to very briefly crack the 5,000 mark towards the end of the session – hitting a high of 5,000.40 one minute before the close. However, it closed slightly lower immediately afterwards, at 4,997.91. The daily move was a broadly flat 0.1% gain. The Nasdaq was 0.2% higher and the Dow Jones gained 0.1%.

The ASX 200 rose 0.3% yesterday. IT was the standout, rising over 1%. Six of 11 sectors were higher. Futures are pointing to a slightly weaker open today.

Interest Rates: Bond yields ended higher during the session despite a strong auction for \$25 billion of long-term bonds. The US 2-year and 10-year treasury yields both rose 3 basis points, to 4.46% and 4.15%, respectively.

Interest-rate markets are attaching a roughly 20% probability of a March cut from the Fed. A cut is not fully priced until June – with 40 basis points of cuts

priced by that meeting.

Australian government bond yields (futures) mimicked moves in the US. The Australian 3-year and 10-year (futures) yields both rose 3 basis points, to 3.68% and 4.15%, respectively. Interest-rate markets continue to price slightly over 50 basis points of cuts in 2024, with the first currently priced for August. Investors will be closely watching the Reserve Bank Governor's appearance before the House of Representatives Standing Committee on Economics today.

Foreign Exchange: The US dollar traded in a narrow range during a session with little major news. The USD Index ranged between a low of 103.96 and a high of 104.43, before closing not far from where it opened, at 104.13.

The Aussie lost ground against the USD. The AUD/USD pair slipped from a high of 0.6532 to a low of 0.6481. It was trading at 0.6492 at the time of writing.

Commodities: Oil prices were higher during the session, with the West Texas Intermediate futures price rising to US\$76.50. Thermal and coking coal were both also higher. Iron ore, copper and gold all declined on the day.

Australia: There were no major economic data releases yesterday.

China: The pace of deflation accelerated in January, as the consumer price index (CPI) fell by 0.8% in the

12 months to January. This followed deflation of 0.3% over the 12 months to December. The outcome was weaker than expected by consensus, which centred on a -0.5% reading.

The reading suggests that consumer demand continues to remain weak, as consumer sentiment is impacted by the flow-on effects from a weak property market and dented confidence. The outcome also adds to growing calls for fiscal stimulus from authorities to support economic growth and consumer confidence.

Separately, producer prices also continued to decline. The producer price index (PPI) fell 2.5% in annual terms in January. This was not as negative as than consensus expectations of -2.6% and the prior reading of -2.7%.

Continued PPI deflation suggests that exporters are likely to continue to export disinflation to advanced economies, which is helping to bring down goods inflation across many countries.

Japan: The current account surplus narrowed to ¥744.3 billion in December. This followed a surplus of ¥1,925.6 billion in November and was below consensus expectations of a ¥1,138.7 billion surplus.

United States: Consumer borrowing slowed in December – growing at its slowest pace in four months. Credit expanded \$1.6 billion in the month, well down from a \$23.5 billion expansion in November. The outcome was weaker than the \$16.0 billion expansion expected by consensus. Total credit outstanding was at a record high of just over \$5 trillion. Growth in consumer credit has been gradually slowing in line with tight monetary policy settings, despite spending being supported by a strong labour market. In 2023, consumer credit grew 2.4% – the weakest gain in three years.

Richmond Fed President Thomas Barkin added to the recent chorus of Fed speakers pushing back against the prospect of near-term rate cuts. He noted that the strong labour market and continued robust demand in the economy provide the Fed with time to assess the slowdown in inflation and be more assured that inflation will sustainably return to the 2% target before cutting rates. He noted that he would specifically “like to see rents and service prices cooling down further”. He also noted that if inflation were to return to 2% alongside strong demand, it would indicate a higher neutral rate.

Today's key data and events:

AU RBA Governor Bullock - Testimony (9:30am)
EZ CPI Jan Final (6pm)

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.

Jarek Kowcza, Senior Economist

Ph: +61 481 476 436

Contact Listing

Chief Economist

Besa Deda
dedab@bankofmelbourne.com.au
+61 404 844 817

Senior Economist

Jarek Kowcza
jarek.kowcza@bankofmelbourne.com.au
+ 61 481 476 436

Senior Economist

Pat Bustamante
pat.bustamante@bankofmelbourne.com.au
+61 468 571 786

Economist

Jameson Coombs
jameson.coombs@bankofmelbourne.com.au
+61 401 102 789

The Detail

The information contained in this report ("the Information") is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom Bank of Melbourne has a contract to supply Information, the supply of the Information is made under that contract and Bank of Melbourne's agreed terms of supply apply. Bank of Melbourne does not represent or guarantee that the Information is accurate or free from errors or omissions and Bank of Melbourne disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to Bank of Melbourne products and details are available. Bank of Melbourne or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. Bank of Melbourne owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of Bank of Melbourne.

Any unauthorised use or dissemination is prohibited. Neither Bank of Melbourne- A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac's subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.
