Morning report

Bank of Melbourne

Tuesday, 16 April 2024

Equities (close & % change)		
S&P/ASX 200	7,753	-0.5%
US Dow Jones	37,735	-0.7%
Japan Nikkei	39,233	-0.7%
China Shanghai	3,205	1.3%
German DAX	18,027	0.5%
UK FTSE100	7,966	-0.4%
Commodities (close & change)		
CRB Index	298.2	0.3
Gold	2,383.34	39.0
Copper	9,499.47	164.5
Oil (WTI futures)	85.41	-0.3
Coal (thermal)	141.75	2.5
Coal (coking)	258.50	8.5
Iron Ore	111.85	-0.4

Sydney Futures Exchange (last & change)				
	Last		**Overnight Chg**	
10 yr bond	4.30		0.03	
3 yr bond	3.84		0.02	
3 mth bill rate	4.32		0.00	
SPI 200	7,725.0		-63	
FX Last 24 hrs	**Open**	**High**	**Low**	**Current**
TWI	61.8	-	-	61.8
AUD/USD	0.6466	0.6493	0.6438	0.6442
AUD/JPY	99.03	100.02	99.01	99.37
AUD/GBP	0.5194	0.5208	0.5173	0.5177
AUD/NZD	1.0888	1.0921	1.0886	1.0910
AUD/EUR	0.6080	0.6092	0.6062	0.6064
AUD/CNH	4.6996	4.7131	4.6725	4.6767
USD Index	105.96	106.25	105.84	106.21

Interest rates (close & change)		
Australia		
90 day BBSW	4.36	0.02
2 year bond	3.89	0.00
3 year bond	3.84	-0.01
3 year swap	4.06	-0.01
10 year bond	4.26	0.00
United States		
3-month T Bill	5.22	-0.01
2 year bond	4.92	0.02
10 year bond	4.60	0.08
Other (10 year yields)		
Germany	2.44	0.08
Japan	0.86	0.01
UK	4.24	0.10

Data as at 7:45am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: US retail spending figures topped forecasts suggesting the consumer pulse at the heart of US economic resilience continues to beat on. Coupled with geopolitical angst, the data further spruced concerns inflation will prove sticky. Markets trimmed expectations for Fed rate cuts, in part contributing to a rise in US treasury yields. However, a sharper rise in bond yields at the long end of the curve may be a sign that markets are entertaining the idea that rates will remain higher for longer and perhaps that the neutral level of interest rates could be higher.

US equities sold off led by tech heavyweights, pushing the S&P 500 below the psychological 5,100 level. The US dollar took a step higher cementing gains above 106 and pushing the Japanese Yen to levels not seen since the 1990's.

Share Markets: US equities unwound as markets continued to trim expectations for fed rate cuts. The S&P 500 fell 1.2%, dropping below the psychological 5,100 level for the first time in five weeks. The Dow Jones and the NASDAQ fell 0.7% and 1.8%, respectively.

Options pricing highlighted the angst in equity markets. The relative cost of protecting against near-term downside risk jumped to its highest level since October last year, while the VIX volatility index also jumped to its highest level since October.

The ASX 200 fell 0.5% in yesterday's trade, futures are pointing to some softness on the open this morning.

Interest Rates: Strong retail activity in the US and fears that flaring geopolitical tensions in the Middle East could elongate disinflation prompted a sell-off in the US treasury market, pushing bond yields higher across the curve. A burst of investment grade corporate issuance provided an added headwind for treasuries.

Selling was more pronounced in longer-dated securities, driving a bear steepening in the US yield curve. The 2-year treasury yield rose 2 basis points to 4.92%, after briefly flirting with the 5.00% level. The 10-year yield jumped 8 basis points to 4.60%, its highest since mid-November.

The first Fed rate cut remains fully priced for September with just over two full 25-basis point cuts priced in by year-end.

Yields on Aussie bond futures rose slightly. The 3-year (futures) yield rose 2 basis points to 3.84%, while the 10-year (futures) yield rose 3 basis points to 4.30%.

Markets are pricing just one rate cut from the RBA this year. The move lower in the cash rate is fully priced for December with an earlier move in November sitting around a 90% probability.

Foreign Exchange: The US dollar firmed, taking on new territory above the 106 handle supported by strong domestic data and higher bond yields. The

DXY traded from a low of 105.84 to a high of 106.25 and was trading only slightly below this level at the time of writing.

The stronger greenback pushed the Aussie further South, breaking through resistance around 0.6450 to slump to its lowest level since November 2023. The AUD/USD fell from a high of 0.6493 to a 5-month low of 0.6438 and is currently trading near 0.6442.

The Japanese Yen took another sharp leg lower. The USD/JPY broke through 154 for the first time since the 1990's. The euro sank to its lowest level against the US dollar since early November 2023.

Commodities: Commodity markets reopened from the weekend but apart from some volatility there were no signs of a significant knee-jerk response to developments in the Middle East. The price of oil remained within its recent range while gold continued to trudge higher.

Australia: There were no major economic data releases yesterday.

Eurozone: Industrial production expanded 0.8% in February, meeting consensus expectations. The increase was the third in the past four months, pointing to a tentative stabilisation in production activity. In annual terms, industrial production was down 6.4% a slight improvement on January's reading of -6.6%.

Japan: Core machinery orders rose 7.7% in February smashing expectations for a 0.8% gain. This was the strongest monthly rise in core orders since January 2023. The strong uptick trimmed the annual slump in machinery orders to -1.8% from -10.9% in January.

New Zealand: Net migration rose 7.6k in February following a revised 3.9k gain in January. Despite the monthly increase, annual migration slowed for a third straight month to 130.9k, suggesting a gradual softening in population pressures which have added to demand and inflation.

United States: A very solid retail sales report for March reinforced the underlying resilience of the US consumer which continues to contribute to strong economic growth. Retail sales rose 0.7% in the month, beating expectations for a 0.4% gain. Excluding automotive categories, retailing spending jumped 1.1% – the largest monthly gain since January 2023. Upwards revisions to spending in February made the strong March figures more impressive, however, it's important to remember retail spending is measured in nominal terms and does not account for higher prices. The all-important control-group measure, which feeds directly into the personal consumption expenditure (PCE) component of GDP rose 1.1% in the month, pointing to solid PCE growth for the March quarter.

The New York Fed Empire manufacturing survey printed at -14.3 in April, up from -20.9 in March. This was the fifth consecutive contractionary reading. A measure of prices paid in the survey jumped to the highest level in almost a year, providing another signal that inflation may remain sticky.

Business inventories rose 0.4% in February on par with expectations. This followed a flat reading from January.

The NAHB housing market index held steady at 51 in April. The improvement in homebuilder sentiment over the back half of 2023 and into the start of 2024 appears to have stalled as the prospect of delayed rate cuts feeds into weaker buyer demand.

Today's key data and events:

CH GDP Q1 y/y prev 5.2% (12pm)
CH Retail Sales Mar y/y (12pm)
CH Industrial Production Mar prev 7.0% (12pm)
EZ EU ZEW Expectations Apr prev 33.5 (7pm)
EZ Trade Balance Feb prev 28.1 (7pm)
UK ILO Unemployment Rate Feb prev 3.9% (4pm)
US Housing Starts Mar prev 10.7% (10:30pm)
US Building Permits Mar prev 1.9% (10:30pm)
US Industrial Production Mar prev 0.1% (11:15pm)

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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