

Wednesday, 21 February 2024

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,659	-0.1%			<b>Last</b>	<b>Overnight Chg</b>		<b>Australia</b>		
US Dow Jones	38,519	-0.3%	10 yr bond	4.18				90 day BBSW	4.33	-0.01
Japan Nikkei	38,364	-0.3%	3 yr bond	3.72				2 year bond	3.84	-0.01
China Shanghai	3,064	0.4%	3 mth bill rate	4.32				3 year bond	3.75	-0.01
German DAX	17,068	-0.1%	SPI 200	7,576.0				3 year swap	3.91	-0.05
UK FTSE100	7,719	-0.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.18	0.01
<b>Commodities (close &amp; change)</b>			TWI	61.3	-	-	61.3	<b>United States</b>		
CRB Index	270.8	-1.8	AUD/USD	0.6540	0.6579	0.6521	0.6554	3-month T Bill	5.21	-0.01
Gold	2,024.27	7.1	AUD/JPY	98.19	98.62	98.04	98.30	2 year bond	4.61	-0.04
Copper	8,458.99	72.7	AUD/GBP	0.5192	0.5210	0.5182	0.5191	10 year bond	4.27	-0.01
Oil (WTI futures)	78.18	-1.0	AUD/NZD	1.0635	1.0649	1.0614	1.0624	<b>Other (10 year yields)</b>		
Coal (thermal)	122.05	1.3	AUD/EUR	0.6068	0.6079	0.6059	0.6062	Germany	2.37	-0.04
Coal (coking)	313.00	0.0	AUD/CNH	4.7162	4.7342	4.7018	4.7204	Japan	0.73	0.00
Iron Ore	119.60	-1.2	USD Index	104.25	104.41	103.80	104.05	UK	4.04	-0.07

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

**Main Themes:** US physical markets reopened after the Presidents' Day holiday. Equity markets were downbeat ahead of key earnings from NVIDIA. Treasury yields closed down across the curve, while the US dollar softened slightly.

**Share Markets:** Equity markets were downbeat ahead of key earnings from NVIDIA. Investors will be considering whether they can justify lofty valuations tied to the potential of AI.

The S&P 500 slipped 0.8%, while the Dow Jones and the NASDAQ fell 0.3% and 1.1%, respectively.

The ASX 200 was down 0.1% yesterday as reporting season gets into full swing. Futures are pointing to some softness on the open this morning.

**Interest Rates:** US treasury yields were mildly lower across the curve. The 2-year yield fell 4 basis points to 4.61%, while the 10-year slipped 1 basis points to 4.27%.

Interest rate markets still see June as the most likely timing for a Fed rate cut. Around 90 basis points of cuts are priced in by the end of the year.

Aussie bond futures edged higher, sending yields lower. Both the 3-and-10-year (futures) yields fell 2 basis points to 3.72% and 4.18%, respectively.

Cash rate futures continue to price in a 25-basis point RBA rate cut at the September meeting.

**Foreign Exchange:** The US dollar initially dropped sharply against a basket of major currencies before

retracing some of the fall to finish only slightly lower. The DXY fell from a high of 104.41 to a near 3-week low of 103.80 before rebounding to trade around 104.05 at the time of writing.

The Aussie dollar traded inversely to the greenback. The AUD/USD pair jumped to 0.6579 - its highest level since the 2<sup>nd</sup> of February - before falling back to close slightly higher at 0.6554.

The New Zealand dollar rose to a 5-week high against the US dollar, trading from a low of 0.6129 to a high of 0.6191.

**Commodities:** The West Texas Intermediate (WTI) price of oil fell to US\$78.18 per barrel. Gold, copper, and coal prices all firmed.

**Australia:** The minutes from the RBA's February meeting were released yesterday. The Board acknowledged that aggregate demand has slowed, and the role of inflation, tax and interest rates in producing this result.

As expected, the Board considered both to raise the cash rate and to leave it unchanged. The data flow since the last meeting has given the Board more confidence in the forecast return to the inflation target. This strengthened the case to hold.

We continue to expect the RBA to be on hold for a number of months before beginning to cut rates later in the year. In our view, the most likely date for the first cut remains September, but there are of

course considerable uncertainties in the outlook.

**China:** The People's Bank of China (PBOC) slashed the five-year loan prime rate by 25 basis points to 3.95%. It was the first cut since June and the largest reduction since a revamp of the rate was rolled out in 2019.

The reduction in the loan prime rate will make it easier for households to access credit. However, given weak consumer confidence and uncertainty around the troubled property sector, the policy tweak is unlikely to prompt a meaningful lift in borrowing activity.

**United States:** Former Treasury Secretary, Larry Summers, sees a meaningful chance that the next move in the Fed funds rate might be up, not down. This is despite consensus among Fed officials that the next move is likely to be a cut.

The US leading index fell to -0.4% in January, from a revised -0.2% in December. The index continues to point to below trend growth, which remains at odds with the official data which is pointing to strong momentum in the US economy.

**Today's key data and events:**

NZ PPI Q4 prev 0.8% (8:45am)

AU WBC-MI Leading Index Jan prev +0.01% (10:30am)

AU Wage Price Index Q4 (11:30am)

q/q exp 0.9% prev 1.3%

y/y exp 4.1% prev 4.0%

UK Public Sect. Borrowing Jan exp -£18.5b prev £6.8b (6pm)

EZ Consumer Confidence Feb exp -15.5 prev -16.1 (2am)

US FOMC Meeting minutes (6am)

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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