Morning report

Bank of Melbourne

Monday, 22 January 2024

Equities (close & % change)		
S&P/ASX 200	7,421	1.0%
US Dow Jones	37,864	1.1%
Japan Nikkei	35,963	1.4%
China Shanghai	2,970	-0.5%
German DAX	16,555	-0.1%
UK FTSE100	7,462	0.0%
Commodities (close & change)		
CRB Index	265.4	-0.1
Gold	2,029.49	6.2
Copper	8,306.76	45.0
Oil (WTI futures)	73.41	-0.7
Coal (thermal)	122.00	-3.8
Coal (coking)	334.50	-1.5
Iron Ore	129.70	-0.2

Sydney Futures Exchange (last & change)				
	Last		Overnight Chg	
10 yr bond	4.30		-0.02	
3 yr bond	3.86		0.02	
3 mth bill rate	4.32		0.00	
SPI 200	7,418.0		26	
FX Last 24 hrs	Open	High	Low	Current
TWI	61.3	-	-	61.3
AUD/USD	0.6568	0.6602	0.6565	0.6591
AUD/JPY	97.33	97.80	97.28	97.74
AUD/GBP	0.5172	0.5206	0.5168	0.5192
AUD/NZD	1.0749	1.0797	1.0742	1.0779
AUD/EUR	0.6043	0.6067	0.6037	0.6050
AUD/CNH	4.7401	4.7533	4.7335	4.7518
USD Index	103.46	103.55	103.24	103.24

Interest rates (close & change)		
Australia		
90 day BBSW	4.34	-0.01
2 year bond	3.96	0.02
3 year bond	3.86	0.02
3 year swap	4.05	0.01
10 year bond	4.29	0.03
United States		
3-month T Bill	5.18	-0.03
2 year bond	4.38	0.03
10 year bond	4.12	-0.02
Other (10 year yields)		
Germany	2.34	-0.01
Japan	0.67	0.02
UK	3.93	0.00

Data as at 8:00am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: US equities ended the week on a positive note, led by technology stocks. Equities were also supported by the rebound in US consumer sentiment. Short-end bond yields ticked higher because of hawkish comments from US Fed officials who continue to push back on expectations of aggressive rate cuts. This US dollar was broadly unchanged. The price of oil declined after increasing from the lows recorded in mid-December due to the ongoing conflict in the Red Sea.

Share Markets: After a mixed start to the year, US equities posted a solid recovery last week. This was driven by a rally in technology stocks and the continued hype around artificial intelligence. The rally was kicked off by chipmaker, Taiwan Semiconductor Manufacturing, upbeat 2024 outlook. The S&P 500 and the Dow Jones both hit all-time highs on Friday, with the NASDAQ trading at a two year high.

The S&P 500 closed 1.2% higher on Friday to record a weekly gain of 1.2%. The Dow Jones closed 1.1% higher to record a weekly gain of 0.7%. Finally, the NASDAQ closed 1.7% higher to be 2.3% higher in weekly terms.

The ASX 200 closed 1.0% higher, led by financial and technology stocks. Ten out of eleven sectors ended the day in the green, with 152 of 200 individual stock posting gains. Futures are pointing to a solid open this morning.

Interest Rates: Short-end Treasury yields rose after hawkish comments made by Fed officials, who continued to push back on the idea of aggressive rate cuts this year. The 2-year yield increased by 3 basis points to 4.38%. The 10-year yield dropped 2 basis points to 4.12%.

Interest rate markets are fully pricing five rate cuts in 2024, totalling 135 basis points of rate cuts. The first full rate cut has been pushed back to May this year, which at the end of 2023 was pencilled in for March.

Australian short-end bond yields were also higher. The Australian 3-year government bond (futures) yield increased 2 basis point to 3.86%, while the 10-year (futures) yield fell 2 basis points to 4.30%.

Interest rate markets are pricing one and a half rate cuts in 2024 – for a total of around 40 basis points. The first-rate cut is expected in November. Markets have attached virtually no chance of another hike, including when the Reserve Bank meets for the first time this year in February.

Foreign Exchange: After reaching 0.6871 in late December, the AUD/USD pair is currently trading around the 0.6500 level. US economic indicators (including consumer sentiment) point to ongoing resilience in the US relative to Australia. This provides the US dollar with yield support and weighs on the AUD/USD pair. The AUD/USD is currently sitting at 0.6591, after trading within a narrow range of 0.6565 to 0.6602.

The US dollar strengthened against a basket of major currencies. After hitting a low of 100.67 in late December, the DXY index is trading at around the 103.00 mark. Economic resilience in the US, coupled with yield support are providing the US dollar with a tailwind. The DXY index is currently sitting at 103.24, after trading within a narrow range of 103.24 to 103.55.

Commodities: The West Texas Intermediate (WTI) futures oil contract remains below USD75.0 a barrel, but higher than the low of USD67.70 a barrel recorded in mid-December.

The oil market continues to be disrupted by the ongoing conflict in the Red Sea. Bloomberg is reporting that oil deliveries from Saudi Arabia and Iraq totalling almost 9 million barrels are delayed as tankers have been forced to switch routes to travel the longer way around Africa. The detour can add more than two weeks' sailing time, which also increases shipping costs.

More broadly, gold and copper were higher, while coal and iron ore were lower, but remain elevated.

Australia: The International Monetary Fund (IMF) released its 2023 Article IV report on the Australian economy. The IMF concludes that a soft landing remains in sight and there's a risk the Reserve Bank (RBA) may need to hike further to get inflation back to target within a reasonable timeframe. Economic activity is expected to be below trend in 2023-24, before recovering in 2024-25 and beyond. The unemployment rate is expected to increase to 4.6% in 2025-26, and remain at that level across the forecast period (to 2027-28).

Japan: The consumer price index (CPI) increased by 2.6% over the year to December, down from the 2.8% recorded in November. This was the lowest annual read since July 2022. Core CPI, which excludes fresh food but includes energy costs, increased by to 2.3% over the year to December, from the 2.5% recorded in November. The slowdown was due to the 11.6% annual fall in energy costs. The core read remains above the Bank of Japan's 2% target.

New Zealand: The BusinessNZ Performance of Manufacturing Index (PMI) declined to 43.1 index points in December, from 46.7 index points in November. This was the tenth straight month the PMI indicated that the manufacturing sector is in decline. Looking at the sub-indices, the monthly fall was driven by weaker production, new orders, and employment.

There were 249,500 migrant arrivals and 122,100 migrant departures over the year to November 2023. These are the highest on record. In net terms, annual net overseas migration was 127,400, very high by historical standards. The monthly numbers are showing some moderation, with net overseas migration increasing by 4,500 in November 2023, compared with 9,500 in November 2022.

United Kingdom: Retail sales volumes (excludes the impact of inflation) declined 3.2% over the month of December, following an increase of 1.4% in November. The monthly drop was the largest since January 2021. Black Friday sales are playing havoc with seasonal factors and could have contributed to the sharp monthly fall. However, over the three months to December, retail trade volumes declined by 0.9%, showing the underlying trend remains very weak, with some analyst suggesting the UK is already in a mild recession.

United States: The University of Michigan's consumer sentiment index increased sharply to 78.8 index points in January 2024, from the 69.7 points recorded in December. Sentiment was supported by stronger income expectations and lower inflation expectations. Inflation expectations for the year ahead went down to 2.9%, the lowest level since December 2020, from 3.1% in December. The proportion of consumers who expect interest rates to fall in the year ahead rose to 40%, from 26% December. That made them more confident about their personal prospects, with more than half — the highest share since July 2021 — expecting their income to grow at least as fast as inflation. For the second straight month, all five sub-indices rose, with strong gains in the outlook personal finances.

Existing-home sales declined 1.0% over December to an annual rate of 3.78 million units - the lowest level since 2010. Over 2023, existing-home sales fell to the lowest level in nearly 30 years, when the population was smaller by around 75 million individuals.

Mary Daly, President of the Federal Reserve Bank of San Francisco, said "I think it's appropriate for us to look forward and ask when would policy adjustments be necessary so we don't put a stranglehold on the economy, it's really premature to think that that's around the corner. Do I get consistent evidence that inflation is coming down, or do I get any early signs with the labour market starting to falter? Neither one of those right now is pushing me to think that an adjustment is necessary."

Raphael Bostic, President of the Federal Reserve Bank Atlanta, said “I’d be open to changing that outlook and my view about when we need to start cutting rates, but we need to make sure that we are well on our way to 2% before we move off of our restrictive stance.”

Austan Goolsbee, President of the Federal Reserve Bank of Chicago, told CNBC he wants to see more progress on housing inflation which remains high. He also said that the continued decline in CPI would merit discussion of rate cuts. “It’s fundamentally about the data” he said.

Today’s key data and events (data to be release on 23 January):

EZ Consumer Confidence Jan (2:00am)
UK Public Sector Borrowing Dec (6:00pm)

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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