bank SA

# Morning Report

Friday, 2 February 2024

| Equities (close & % change) | | |
|---|---|---|
| S&P/ASX 200 | 7,588 | -1.2% |
| US Dow Jones | 38,520 | 1.0% |
| Japan Nikkei | 36,011 | -0.8% |
| China Shanghai | 2,905 | -0.6% |
| German DAX | 16,859 | -0.3% |
| UK FTSE100 | 7,622 | -0.1% |
| **Commodities (close & change)** | | |
| CRB Index | 269.7 | -2.7 |
| Gold | 2,054.99 | 15.5 |
| Copper | 8,530.50 | -13.3 |
| Oil (WTI futures) | 73.82 | -2.0 |
| Coal (thermal) | 117.00 | -1.1 |
| Coal (coking) | 316.00 | -2.0 |
| Iron Ore | 129.00 | -2.0 |

| Sydney Futures Exchange (last & change) | Last | | Overnight Chg | |
|---|---|---|---|---|
| 10 yr bond | 3.98 | | -0.05 | |
| 3 yr bond | 3.51 | | -0.03 | |
| 3 mth bill rate | 4.27 | | 0.00 | |
| SPI 200 | 7,577.0 | | 30 | |
| **FX Last 24 hrs** | **Open** | **High** | **Low** | **Current** |
| TWI | 61.4 | - | - | 61.4 |
| AUD/USD | 0.6561 | 0.6579 | 0.6508 | 0.6573 |
| AUD/JPY | 96.56 | 96.59 | 95.50 | 96.19 |
| AUD/GBP | 0.5177 | 0.5185 | 0.5140 | 0.5157 |
| AUD/NZD | 1.0733 | 1.0743 | 1.0694 | 1.0708 |
| AUD/EUR | 0.6070 | 0.6083 | 0.6022 | 0.6047 |
| AUD/CNH | 4.7160 | 4.7275 | 4.6831 | 4.7250 |
| USD Index | 103.63 | 103.81 | 103.02 | 103.06 |

| Interest rates (close & change) | | |
|---|---|---|
| **Australia** | | |
| 90 day BBSW | 4.33 | -0.02 |
| 2 year bond | 3.67 | -0.02 |
| 3 year bond | 3.56 | -0.02 |
| 3 year swap | 3.74 | 0.00 |
| 10 year bond | 3.97 | -0.04 |
| **United States** | | |
| 3-month T Bill | 5.21 | -0.01 |
| 2 year bond | 4.20 | 0.00 |
| 10 year bond | 3.88 | -0.03 |
| **Other (10 year yields)** | | |
| Germany | 2.15 | -0.02 |
| Japan | 0.71 | -0.03 |
| UK | 3.75 | -0.05 |

Data as at 9:00am AEDT. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

**Main Themes:** Bond markets were volatile as investors digested the latest decision from the Bank of England (BoE) and mixed data from the US.

The BoE followed the Federal Reserve yesterday by leaving its policy rate unchanged, at 5.25%. This was widely expected. However, it dropped its explicit tightening bias, removing references to further tightening in its guidance.

US economic data was mixed. Labour market data suggested that the labour market may be easing, while manufacturing data surprised to the upside – albeit still showing that manufacturing sector remained in contractionary territory.

US bond yields ended flat to slightly lower, share markets rebounded strongly following positive earnings news, the US dollar lost ground against major currencies, and the AUD/USD pair strengthened.

**Share Markets:** Stock markets rebounded sharply from yesterday's fall as tech stocks rallied on strong earnings outlooks from two of the magnificent seven – Meta Platforms (i.e. Facebook) and Amazon. The S&P 500 closed 1.2% higher, the Nasdaq jumped 1.3% and the Dow Jones rose 1.0%.

The ASX 200 dropped 1.2% yesterday, following the lead from US markets in the previous session. The index fell back below the record high that was hit only a day earlier. It was a sea of red as all 11 sectors were lower on the day. Financials, real estate, industrials, health care, IT, and utilities were all more than 1% lower during the session. Futures are pointing to a positive open today, taking the lead from the US session overnight.

**Interest Rates:** Interest rates closed little changed after swinging between gains and losses during the day. The US 2-year treasury yield was unchanged at 4.20% – after ranging between a low of 4.13% and a high of 4.26%.

The 10-year treasury yield lost 3 basis points, to 3.88%. This followed trading in a range between a low of 3.81% and a high of 3.96%.

Interest-rate markets are pricing around a 38% chance of a cut from the Fed in March and 146 basis point of cuts by the end of 2024.

Australian government bond yields were lower on futures overnight. The 3-year government bond yield (futures) fell 3 basis points, to 3.51%. The 10-year (futures) yield lost 5 basis points, to 3.98%. Interest-rate markets are pricing almost 70 basis points of cuts in 2024. This would equate to around 2.7 25-basis-point cuts. The first cut is currently fully priced by August and almost fully priced by June. This pricing has been brought forward following the release of softer-than-expected inflation data earlier this week. Prior to the inflation data release, markets were pricing around 48 basis points of cuts in 2024.

**Foreign Exchange:** The US dollar was lower on the day, falling to 103.06. This followed it trading in a range from a high of 103.81 to a low of 103.02.

The AUD/USD pair was stronger in line with a weaker US dollar. The pair rose from a low of 0.6508 to a high of 0.6579, and was trading near that level, at 0.6573, at the time of writing.

**Commodities:** Most commodities pulled back during the session, with the West Texas Intermediate (WTI) futures oil price falling below US$74 per barrel. The fall was despite news from OPEC+ members around supply cuts. OPEC+ members signalled that they plan to implement previously announced supply reductions in Q1 to support prices and avoid a surplus of supply. The approach for Q2 will be decided in March.

Gold was the outlier, rising to above US$2,050 an ounce during the session.

**Australia:** Dwelling prices rose 0.4% in January 2024, in line with the average monthly growth rate recorded over the December quarter, but lower than the average monthly growth of 0.7% recorded over the September quarter.

The moderation in growth reflects the two-speed housing market – in cities where supply remains constrained, such as Perth, Adelaide and Brisbane, growth in house prices show little sign of moderating. In cities where increased listings are testing demand, such as Melbourne, Hobart, and Canberra, prices declined in January.

The key question going forward is whether supply will increase and outstrip demand, particularly in those markets where listings remain low. Overall, we except demand, supported by the record growth in the population, to largely absorb higher supply, but it could get bumpy month to month the longer rates remain at the current restrictive level.

A meaningful supply response is needed to accommodate the record population growth. Building approvals continue to be subdued, currently sitting at around 25% lower than the ten-year average. This suggests that the supply response is likely to be way off and that the housing market will remain tight.

The number of dwellings approved fell 9.5% in December, after a slight rise of 0.3% in November. The fall in December reflected a 22.4% fall in multi density dwellings, which were largely recorded in Victoria and South Australia.

**China:** The Caixin manufacturing purchasing managers' index (PMI) was steady at 50.8 in January, pointing to broadly neutral conditions in the smaller end of the manufacturing sector.

**Eurozone:** The consumer price index (CPI) fell 0.4% in January, matching consensus expectations. This followed a 0.2% monthly rise in the CPI in December. In annual terms, inflation slowed to 2.8%, from 2.9%, while core inflation slowed to 3.3% in annual terms, from 3.4% previously.

Strong disinflation progress has not materialised in a loosening in labour market conditions. The unemployment rate held steady at 6.4% in December, equalling the lowest reading on record.

**United Kingdom:** The Bank of England (BoE) left its policy rate unchanged at 5.25%, as widely expected. The BoE dropped its explicit tightening bias, removing its reference to further tightening in its guidance.

**United States:** Initial jobless claims rose to a 11-week high of 224k over the week ending Jan 27, beating expectations for a 212k reading. The stronger than expected number spurred optimism that we will see signs of further softening in labour market conditions in tonight's non-farm payrolls report.

The ISM manufacturing PMI rose to 49.1 in January from 47.1 in December, surpassing expectations. The outcome continues to point to slight contraction in the manufacturing sector but marks the strongest reading since October 2022.

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

NZ ANZ Consumer Conf. Jan prev 93.1 (8am)

NZ Building Permits Dec prev -10.6% (8:45am)

AU PPI Q4 prev 1.8% (11:30am)

AU Housing Finance Dec (11:30am)

Total exp 2.5% prev 1.0%

Owner-occupier exp 2.0% prev 0.5%

Investor exp 3.5% prev 1.9%

US Non-farm Payrolls Change Jan exp 155k prev 216k (12:30am)

US Unemployment Rate Jan exp 3.7% prev 3.7% (12:30am)

US Average Hourly Earnings Jan exp 0.3% prev 0.4% (12:30am)

US UoM Consumer Sentiment Jan Final prev 78.8 (2am)

US Factory Orders Dec exp 0.5% prev 2.6% (2am)

US Durable Goods Orders Dec Final (2am)

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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