Morning Report

Friday, 8 March 2024

Equities (close & % change)		
S&P/ASX 200	7,764	0.4%
US Dow Jones	38,791	0.3%
Japan Nikkei	39,599	-1.2%
China Shanghai	3,174	-0.4%
German DAX	17,843	0.7%
UK FTSE100	7,692	0.2%
Commodities (close & change)		
CRB Index	279.1	1.0
Gold	2,158.50	10.3
Copper	8,503.00	81.3
Oil (WTI futures)	78.91	-0.2
Coal (thermal)	137.60	-1.7
Coal (coking)	300.00	-2.0
Iron Ore	115.75	-1.0

Sydney Futures Exchange (last & change)				
	Last		Overnight Chg	
10 yr bond	4.01		-0.02	
3 yr bond	3.61		-0.02	
3 mth bill rate	4.25		0.00	
SPI 200	7,810.0		41	
FX Last 24 hrs	**Open**	**High**	**Low**	**Current**
TWI	61.0	-	-	61.0
AUD/USD	0.6565	0.6625	0.6561	0.6619
AUD/JPY	98.06	98.10	97.44	98.00
AUD/GBP	0.5154	0.5188	0.5153	0.5167
AUD/NZD	1.0712	1.0730	1.0702	1.0721
AUD/EUR	0.6024	0.6082	0.6020	0.6046
AUD/CNH	4.7334	4.7702	4.7305	4.7654
USD Index	103.36	103.39	102.81	102.83

Interest rates (close & change)		
Australia		
90 day BBSW	4.35	0.01
2 year bond	3.75	0.02
3 year bond	3.64	0.01
3 year swap	3.84	-0.01
10 year bond	4.01	0.00
United States		
3-month T Bill	5.22	-0.01
2 year bond	4.51	-0.05
10 year bond	4.09	-0.01
Other (10 year yields)		
Germany	2.31	-0.02
Japan	0.73	0.01
UK	4.00	0.01

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: Dovish comments from Fed Chair Jerome Powell and ECB President Christine Lagarde were in focus overnight as both spoke about the potential for rate cuts in 2024. Powell noted that the Fed was "not far" from being confident enough to cut, while Lagarde hinted at a June cut.

Short-term bond yields moved lower on the news and long-term yields were also slightly lower. Equity markets rallied to new highs, while the US dollar extended its recent decline against a basket of major currencies.

Share Markets: Equity markets continued to power ahead as the prospects of rate hikes support valuations and ahead of the US non-farm payrolls reports on Friday. The S&P 500 rose to a new record high – up 1.0% on the day. The Nasdaq was again the outperformer, up 1.5%. The Dow Jones lagged the other indices, rising 0.3%.

The ASX 200 rose 0.4% yesterday, closing at a new record high. Futures are pointing to a strong open today, taking the lead from US markets.

Interest Rates: Short-term bond yields declined and the probability of rate cuts by June from the Fed rose on Chair Powell's comments. The US 2-year yield fell 5 basis points, to 4.51%. The 10-year yield was 1 basis point lower, at 4.09%. Both have trended lower over recent weeks after hitting their highest levels in 2024 so far in mid-February, of 4.74% and 4.35%, respectively.

Market pricing for US Fed rate cuts was brought forward. Interest-rate markets are now pricing a 96% chance of a June cut, with 92 basis points of cuts priced for 2024. This compares with around an 85% chance of a June cut, and 88 basis points of cuts for 2024 a day earlier.

Australian bond yields also traded lower on futures in the overnight session. The 3-year and 10-year (futures) yield both declined 2 basis points, to 3.61% and 4.01%, respectively. Interest-rate markets continue to price the first move from the RBA by September, with 48 basis points of cuts (i.e. almost two 25-basis-point cuts) fully priced by the end of 2024.

Foreign Exchange: The US dollar extended its recent decline against major currencies as it lost some yield support with bond yields declining. The DXY Index fell from a high of 103.39 to a low of 102.81 and was trading near that low, at 102.81, at the time of writing. The US dollar has trended lower since hitting a 2024 high so far in mid-February of around 105.

The AUD/USD pair rallied strongly higher overnight, extending its sharp move up to two consecutive sessions. The pair moved from a low of 0.6561 to 0.6625, convincingly breaking through the psychological 0.6600 level on its way there. It was trading near the high, at 0.6619, at the time of writing.

Commodities: Gold continued its march higher – closing at a new record high of US$2,158.50 an ounce. It has now closed up on seven consecutive sessions. Copper was also up on the day. Oil, coal, and iron ore were all lower.

Australia: The total value of housing finance approvals fell 3.9% in January. This followed a decline of 4.1% in December.

Following the result, finance approvals are around 4.2% above the most recent low in February 2023. This period represented the beginning of the turnaround in approvals in 2023, in line with a recovery in dwelling prices and the broader housing market from early 2023.

However, recent falls over the past two months have led to a material pull back in finance approvals. Specifically, approvals were 15.6% above their February 2023 level in November 2023, before falls occurred in December and January.

Across the segments, owner-occupier loans were down 4.6% in January, following a 5.6% fall in December. Investor loans were also lower, but to a lesser degree. New loans to investors fell 2.6% in the month, following a 1.6% drop in December.

New lending was lower across all the states and territories, with the exception of WA, where lending to both owner-occupiers and investors continued to advance.

The balance of trade in goods came in at a surplus of $11.0 billion in January. This reflected a widening of the goods trade surplus from $10.7 billion in December. The result was below consensus expectations of an $11.5 billion surplus. Goods exports rose 1.6% in the month, following a 1.5% gain in December. This was partly offset by a 1.3% increase in goods imports, which was down from the 4.0% gain last month.

Eurozone: The European Central Bank (ECB) left rates unchanged, as expected. The focus for market participants was on comments from ECB President Christine Lagarde and updated forecasts for inflation and other key variables.

President Lagarde sung from a similar hymn sheet to other global central bankers as she spoke of the need for the ECB to see more data to be confident enough to cut rates. She noted that a rate cut wasn't discussed at the meeting and pushed back against near term cuts. However, she suggested that the ECB may have enough information in front of them for a June cut.

Updated forecasts showed that inflation is expected to fall to 2.3% in 2024 and 2.0% by 2025.

Germany factory orders fell 11.3% in January, suggesting that the manufacturing powerhouse continues to face economic challenges. The outcome was worse than the 6.0% fall expected by consensus. However, tempering the result somewhat, the previous month was revised higher to 12.0%, from an initial reading of 8.9%. The outcome was driven by a large fall in capital goods, which can be volatile and rose strongly in the previous month.

United States: Fed Chair Jerome Powell spoke in front of the Senate Banking Committee overnight, following his appearance a day earlier in front of the House Financial Services Committee. The comments delivered were largely similar to those a day earlier and followed the script that Chair Powell has stuck to since the Fed's most recent meeting. However, markets jumped on Chair Powell noting that the Fed were "not far" from reaching the level of confidence he has spoken about before to begin cutting rates. The key point is that the Fed is waiting for more of the same kind of good data on inflation that they have been seeing recently, to gain additional confidence before cutting. Specifically, he noted that "we're waiting to become more confident that inflation is moving sustainably at 2%". "When we do get that confidence — and we're not far from it — it'll be appropriate to begin to dial back the level of restriction."

The trade deficit widened to $67.4 billion in January, following a $64.2 billion deficit in December – revised lower from an initial reading of $62.2 billion. The outcome was below expectations, which centred on a $63.5 billion outcome.

Quarterly unit labour cost (ULC) growth – wage costs adjusted for productivity – was finalised lower in its final estimate, adding to signs of a cooling in the inflationary pressures emanating from the labour market. ULCs rose at an annualised pace of 0.4% in Q4, down from the initial estimate of 0.5%. This was below consensus expectations, which had expected an upward revision to 0.7% growth. Supporting this outcome, non-farm productivity growth was finalised unchanged from its initial reading in Q4, at an annualised 3.2% rate. This was against an expectation for a downward revision to 3.1%.

Today's key data and events table overleaf

Today's key data and events:

CH PPI Feb y/y exp -2.5% prev -2.5% (12:30pm Sat 9 Mar)

CH CPI Feb y/y exp 0.3% prev -0.8% (12:30pm Sat 9 Mar)

EZ Ger Industrial Production Jan exp 0.6% prev -1.6% (6pm)

EZ GDP Q4 Final exp 0.0% prev 0.0% (9pm)

JP Current Account Jan exp ¥330.4bn prev ¥744.3bn (10:50am)

US Consumer Credit Jan exp $10.0bn prev $1.6bn (7am)

US Non-farm Payrolls Change Feb exp 200k prev 353k (12:30am)

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

US Average Hourly Earnings Feb exp 0.2% prev 0.6% (12:30am)

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@banksa.com.au
+61 404 844 817

Senior Economist
Jarek Kowcza
jarek.kowcza@banksa.com.au
+ 61 481 476 436

Senior Economist
Pat Bustamante
pat.bustamante@banksa.com.au
+61 468 571 786

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