

Morning Report

Wednesday, 24 January 2024

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)			
S&P/ASX 200	7,515	0.5%			Last	Overnight Chg		Australia			
US Dow Jones	37,905	-0.3%	10 yr bond		4.29	0.08		90 day BBSW	4.35	0.00	
Japan Nikkei	36,518	-0.1%	3 yr bond		3.80	0.04		2 year bond	3.89	-0.05	
China Shanghai	2,905	0.5%	3 mth bill rate		4.32	0.02		3 year bond	3.79	-0.05	
German DAX	16,627	-0.3%	SPI 200		7,501.0	16		3 year swap	4.00	0.01	
UK FTSE100	7,486	0.0%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.19	-0.04	
Commodities (close & change)			TWI		61.5	-	-	61.5	United States		
CRB Index	268.2	1.2	AUD/USD		0.6571	0.6612	0.6552	0.6578	3-month T Bill	5.20	0.00
Gold	2,028.46	6.8	AUD/JPY		97.28	97.82	97.10	97.58	2 year bond	4.38	-0.01
Copper	8,289.50	-17.3	AUD/GBP		0.5171	0.5192	0.5167	0.5185	10 year bond	4.14	0.03
Oil (WTI futures)	74.52	-0.2	AUD/NZD		1.0817	1.0833	1.0792	1.0805	Other (10 year yields)		
Coal (thermal)	123.25	-0.7	AUD/EUR		0.6037	0.6071	0.6035	0.6063	Germany	2.35	0.06
Coal (coking)	335.00	0.0	AUD/CNH		4.7278	4.7403	4.7018	4.7136	Japan	0.67	0.01
Iron Ore	132.05	0.1	USD Index		103.33	103.82	102.98	103.60	UK	3.99	0.08

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: Market movements were somewhat contained during a session with little in the way of major data releases to drive direction. Short-term bond yields ended slightly lower, while long-term yields rose. Equity markets continued their advance, with US stocks hitting fresh record highs. The US dollar advanced to a one-month high, while the Aussie swung between gains and losses, to end the session not far from where it opened.

Share Markets: Equity markets extended their gains overnight as positive earnings from a number of large corporates supported sentiment. The S&P 500 finished 0.3% – hitting a new record high. The Nasdaq gained 0.4%. The Nasdaq 100 (a subset of the broader Nasdaq composite index) also finished at a record high. The S&P 500 and Nasdaq 100 both closed at new records for the second time this week. Bucking the trend, the Dow Jones slipped 0.3%. Post-market, Netflix surged by over 7% as sales beat estimates and subscriber growth was strong. Other major earnings reports will continue to be released over coming days.

The ASX 200 finished 0.5% higher yesterday. Eight of 11 sectors finished in the green. Health care was the standout, gaining 1%. Financials, consumer staples, materials, utilities, and IT were all also up by more than 0.5% on the day. Consumer discretionary, real estate, and energy were down. Futures are pointing to a positive open today, taking

the lead from US markets.

Interest Rates: Bond yields were little changed during the session. The US 2-year treasury yield fell 1 basis point, to 4.38%. The 10-year yield was 3 basis points higher, at 4.14%. Interest-rate markets continue to price aggressive cuts from the Fed in 2024. Markets are currently pricing around 5.4 cuts in 2024, with the first cut fully priced by May.

Australian government bond yields were higher on futures overnight. The 3-year (futures) yield rose 4 basis points, to 3.80%. The 10-year (futures) yield was 8 basis points higher, at 4.29%. Interest-rate markets continue to price no chance of any further hikes from the RBA. 1.8 cuts are currently priced in 2024, with the first fully priced by September – brought forward from November a day earlier.

Foreign Exchange: The US dollar advanced against major currencies, rising to its highest level in a month. The USD Index traded between a low of 102.98 and a high of 103.82. It pulled back slightly later in the session, to 103.60.

The Aussie dollar initially rose to a high of 0.6612, before pulling back to a low of 0.6552. It recovered to 0.6578 at the time of writing – not far from the 0.6571 level at the beginning of the session.

Commodities: Oil prices slipped on the day, falling to US\$74.52. Copper and thermal coal were also lower. Iron ore and coking coal were broadly flat,

while gold was higher during the session.

Australia: Business conditions slipped 2 points in December to +7, holding slightly below the 10-year average. Trading conditions continued to ease, while employment conditions also cooled. The survey measure of profitability was unchanged. Meanwhile, business confidence jumped 8 index points to end the year at -1, a solid jump likely driven by some end of year optimism.

The monthly dynamic was a familiar one, a sustained but gradual slide in conditions as the economy softens, coupled with volatile, but on balance, marginally pessimistic confidence. Given the array of risks and uncertainties that lie ahead in 2024, this provides little surprise.

The survey leading indicators point to a further slowdown ahead but suggest that this will remain gradual. Forward orders improved by 1 index point but remain weak at -3. Capacity utilisation, an important indicator of how businesses are keeping up with demand, eased for a fourth consecutive month in December, but remains historically elevated at 82.7.

Survey measures of costs slowed across the board in December. Labour costs fell from a quarterly rate of 2.3% to 1.8% – the lowest since November 2021. Purchase costs slowed from 2.5% to 1.6% – the slowest since February 2021. The improvement in costs growth looks to have been largely passed on to customers, final product prices rose at 0.9% – the slowest quarterly pace since February 2021.

The recent survey outcomes suggest that the more distinct slowing in the economy observed in the September quarter continued in the December quarter. Importantly, this also coincided with a sharper slowing in input costs – a sign that a slowing economy is helping to fight inflation. The RBA would take comfort in this given their focus on domestic inflation.

Eurozone: Consumer confidence started 2024 on the back foot, falling to -16.1 in January. This was down from -15.1 in December and was weaker than consensus expectations, which centred on a -14.3 reading. The measure remains well below its long-run average.

Japan: The Bank of Japan (BoJ) left its policy stance unchanged at its January meeting in a unanimous vote. The decision leaves the short-term interest rate at -0.10%. The decision was in line with consensus expectations, with all 57 economists surveyed expecting the rate to remain unchanged. The target for the 10-year bond yield was also left

unchanged, at 0.00%. Policy settings for Japan remain in stark contrast to other developed economies.

The BoJ lowered its inflation forecast for the 2024 fiscal year to 2.4%, from 2.8% in the previous estimate. The revision reflects recent declines in oil prices. For the 2025 fiscal year, the BoJ raised its forecast for inflation to 1.8%, from 1.7%.

United Kingdom: The public sector borrowed £6.8 billion in December. This followed borrowing of £12.8 billion in November and was below expectations of £11.4 billion.

United States: The Richmond Fed manufacturing index continued to indicate that the sector remains under pressure and in contractionary territory. The index slipped to -15 in January, down from -11 in December. Consensus expectations were for a slight improvement to -8. The index has been below zero for three consecutive months. Most sub-indices remained in contractionary territory, including capacity utilisation, shipments, order backlogs, and the number of employees.

The Philadelphia Fed non-manufacturing activity index fell back into contractionary territory in January after briefly moving above zero in December. The index fell to -3.7, from 2.1 in the previous month. Sales, inventories, and prices received fell in the month. New orders, unfilled orders, and prices paid were higher.

Today's key data and events:

NZ CPI Q4 q/q prev 1.8% (8:45am)
 EU Markit Manufacturing PMI Jan Prel. exp 44.7 prev 44.4 (8:00pm)
 EU Markit Services PMI Jan Prel. exp 49.0 prev 48.8 (8:00pm)
 UK Markit Manufacturing PMI Jan Prel. exp 46.7 prev 46.2 (8:30pm)
 UK Markit/CIPS Services PMI Jan Prel. exp 53.2 prev 53.4 (8:30pm)
 US Markit Manufacturing PMI Jan Prel. exp 47.6 prev 47.9 (1:45am)
 US Markit Services PMI Jan Prel. exp 51.4 prev 51.4 (1:45am)

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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