Morning Report

Wednesday, 3 April 2024

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,888	-0.1%		Last		Overnight Chg		**Australia**		
US Dow Jones	39,170	-1.0%	10 yr bond	4.11		0.04		90 day BBSW	4.34	0.00
Japan Nikkei	39,839	0.1%	3 yr bond	3.65		0.03		2 year bond	3.70	-0.05
China Shanghai	3,224	-0.1%	3 mth bill rate	4.30		0.02		3 year bond	3.66	0.03
German DAX	18,283	-1.1%	SPI 200	7,907.0		-30		3 year swap	3.89	0.07
UK FTSE100	7,935	-0.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.07	0.11
Commodities (close & change)			TWI	61.3	-	-	61.3	**United States**		
CRB Index	294.2	1.9	AUD/USD	0.6490	0.6524	0.6483	0.6518	3-month T Bill	5.20	0.00
Gold	2,280.67	50.8	AUD/JPY	98.41	98.83	98.26	98.78	2 year bond	4.69	-0.02
Copper	8,787.84	19.8	AUD/GBP	0.5171	0.5188	0.5166	0.5182	10 year bond	4.35	0.04
Oil (WTI futures)	85.45	1.7	AUD/NZD	1.0901	1.0928	1.0896	1.0915	**Other (10 year yields)**		
Coal (thermal)	132.25	0.3	AUD/EUR	0.6041	0.6066	0.6038	0.6052	Germany	2.40	0.10
Coal (coking)	237.75	2.8	AUD/CNH	4.7119	4.7316	4.7072	4.7291	Japan	0.75	0.01
Iron Ore	102.90	1.3	USD Index	104.96	105.10	104.68	104.76	UK	4.09	0.15

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: Bond yields pushed higher on the back of stronger than expected economic data and hawkish comments from US Fed officials. The 10-year Treasury yield hit its highest level this year and the market has priced in virtually no chance of a rate cut in May. US equities declined and the prices of oil and gold were higher. The US dollar edged lower with the Aussie outperforming.

Share Markets: US equities finished lower as the stronger than expected data points to rates remaining on hold for longer.

The S&P 500 share market index fell 0.7% after reversing some of the losses recorded earlier in the session. The Dow and the Nasdaq both ended the session 1.0% lower. European markets also closed lower.

The ASX 200 slipped 0.1% yesterday. Futures are pointing to a weak open this morning on the back of the US session.

Interest Rates: Longer end US bond yields increased to their highest rate this year. The 10-year yield increased to reach a high of 4.40% (highest since November 2023) before falling to around 4.35%. The US 2-year was broadly unchanged at 4.69%.

Interest rate markets are pricing around an 66% chance of a Fed rate cut in June, this is down from around 80% last week. The number of rate cuts priced in by the end of 2024 is now 2.8 cuts, from 3.1 full rate cuts just a week ago.

Moves in Aussie bond futures were small. The 3-year (futures) yield increased 3 basis points to 3.65%, while the 10-year (futures) yield increased 2 basis points to 4.30%.

Interest rate markets are fully pricing an RBA rate cut by the November meeting and have around an 65% chance of another cut by year-end. The chance of a rate cut in the late September meeting has fallen to 95% - a rate cut in September was fully priced in last week.

Foreign Exchange: The US dollar index pushed up immediately after the stronger than expected US factory orders release, before easing on the back of more benign job vacancies data. The DXY traded from a low of 104.68 to a high of 105.10 and is currently sitting around 104.76.

The Aussie dollar outperformed on the back of yield support as traders pushed back the start of the US cutting cycle. The AUD/USD pair traded from a low of 0.6483 to a high of 0.6524, testing resistance levels at 0.6520, before settling at 0.6518.

Commodities: Commodities were higher across the board in the wake of stronger activity data. The price of gold rose to a fresh record high. The West Texas Intermediate (WTI) price of is now sitting at US$85.45 per barrel – the highest level since October 2023.

Australia: The minutes of the Reserve Bank (RBA)

Board meeting in late-March recorded that the data had turned out as expected, and that this supported keeping the cash rate on hold. Unlike the February minutes, there was no mention of multiple policy options. While the Board endorsed the language of not ruling anything in or out, it seems that policy actions other than keeping rates unchanged were not on the table at this meeting. The current level of the cash rate is assessed as being just right, at least for the time being.

The minutes noted that the staff assessed that demand still exceeded supply, but the gap was diminishing quickly. A slowing in labour demand was called out, and growth in labour costs was assessed to have peaked.

The ongoing decline in inflation was highlighted, with the three-month-ended rate for the monthly indicator used as a timelier metric. The minutes highlighted the bumpiness of the decline in inflation in other countries and noted that something similar could happen in Australia.

We expect the RBA to reach the required level of assurance about the path of inflation later in the year, after the full suite of data for the first half of 2024 are released. We continue to expect the first rate cut to occur at the late-September Board meeting.

The Melbourne Institute's Monthly Inflation Gauge edged up 0.1% in March after inching down 0.1% in February. The Gauge is now running at 3.8% in annual terms, the slowest pace in almost two years.

Job ads declined 1.0% in March, after a 2.1% fall in February. It was the second straight month of drop in job ads, suggesting a gradual rise in unemployment. From a year earlier, ads tumbled 10.6% but remained 32.1% higher than pre pandemic levels.

United Kingdom: The Manufacturing Purchasing Managers Index (PMI) was revised higher to 50.3 index points in March from a preliminary of 49.9 points. The reading pointed to the first expansion in manufacturing activity since July 2022. Output and new orders increased following year-long declines. Factory production increased for the first time since February 2023. On the price front, manufacturers saw upward pressure on both input costs and output charges.

House prices fell 0.2% in March, following gains of 0.7% in January and February. This was lower than the gain of 0.3% the market was expecting. The outcome suggests that the housing market may be stagnating due to high mortgage rates and strained affordability.

Consumer credit grew by £1.4 billion in February, down from £1.8 billion in January. This was below the £1.6 billion the market was expecting. The slowdown was mainly driven by lower net borrowing through credit cards. The annual growth rate for all consumer credit dropped from 9.0% in January to 8.7% in February.

Eurozone: Inflation expectations fell in February. Consumers now expect prices to rise by 3.1% over the next 12 months — down from the 3.3% expected in January. This is the lowest level since the start of the war in Ukraine in February 2022. For three years ahead, consumers expect prices to still rise by 2.5%, unchanged from January.

The Manufacturing PMI was revised higher to 46.1 index points in March from a preliminary estimate of 45.7 points. Manufacturing output declined for the twelfth consecutive month. Business confidence rose to its highest level in nearly a year, but growth expectations remained relatively weak, which weighed further on factory employment.

United States: New orders for manufactured goods rose 1.4% in February. This was better than the increase of 1.0% expected by the market. New orders for durable goods expanded by 1.3%, supported by a pickup in orders for transportation equipment, machinery, and fabricated metal products. Excluding transportation, factory orders rose by 1.1%.

The number of job vacancies was little changed at 8.8 million in February, down from the peak of 12.2 million in March 2022. There are now fewer than 1.4 open jobs for every unemployed person, well down from the peak of more than 2.0 vacancies for each unemployed person. This suggests that the market is coming into better balance.

Loretta Mester, Cleveland Fed President, said the recent inflation readings confirmed the non-linear nature of disinflation, noting that she "needs to see more data to raise my confidence. Some further monthly readings will give us a better sense of whether the disinflation process is stalling out or whether the start-of-the-year readings reflect a temporary detour on the downward path back to price stability." Mester still expects interest rate cuts this year but ruled out the next policy meeting in May.

Mary Daly, San Francisco Fed President, said that three reductions this year "is a very reasonable baseline. But growth is going strong, so there's really no urgency to adjust the rate".

Today's key data and events:

CH Caixin Services PMI Mar prev 52.5 (12:45pm)

EZ CPI Mar y/y prev 2.6% (8:00pm)

EZUnemployment Rate Feb prev 6.4% (8:00pm)

US ADP Employment Change Mar exp 150k prev 140k (11:15pm)

US ISM Non–Mfg Mar exp 52.6 prev 52.6 (1:00am)

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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