Morning Report

Wednesday, 17 April 2024

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,612	-1.8%		Last		Overnight Chg		Australia		
US Dow Jones	37,799	0.2%	10 yr bond	4.38		0.04		90 day BBSW	4.36	0.00
Japan Nikkei	38,471	-1.9%	3 yr bond	3.90		0.03		2 year bond	3.94	0.05
China Shanghai	3,153	-1.6%	3 mth bill rate	4.33		0.00		3 year bond	3.89	0.05
German DAX	17,766	-1.4%	SPI 200	7,612.0		-23		3 year swap	4.13	0.00
UK FTSE100	7,820	-1.8%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.33	0.07
Commodities (close & change)			TWI	61.6	-	-	61.6	United States		
CRB Index	296.8	-1.3	AUD/USD	0.6442	0.6445	0.6390	0.6401	3-month T Bill	5.20	0.01
Gold	2,382.89	-0.5	AUD/JPY	99.36	99.39	98.66	99.01	2 year bond	4.99	0.07
Copper	9,514.03	132.7	AUD/GBP	0.5176	0.5178	0.5139	0.5151	10 year bond	4.67	0.07
Oil (WTI futures)	85.35	0.0	AUD/NZD	1.0912	1.0918	1.0879	1.0885	Other (10 year yields)		
Coal (thermal)	136.40	-0.1	AUD/EUR	0.6064	0.6065	0.6019	0.6028	Germany	2.49	0.05
Coal (coking)	260.50	2.0	AUD/CNH	4.6771	4.6789	4.6449	4.6494	Japan	0.87	0.01
Iron Ore	110.85	1.5	USD Index	106.18	106.52	106.07	106.37	UK	4.30	0.06

Data as at 8:15am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: Comments from Fed Chair Jerome Powell added to market concerns that interest rates may need to stay higher for longer to tackle elevated inflationary pressures in the world's largest economy. This contributed to the sell off in bonds extending (i.e. yields rose) and interest rates jumped to their highest levels since November 2023. The US dollar extended gains in this environment and rose to the highest level since November. The Aussie suffered under the weight of a stronger USD and dropped to the lowest levels this year so far and the lowest since November. Equities lost more ground in this environment.

Share Markets: The S&P 500 fell for a third straight session as hawkish comments from Fed Chair Powell drove interest rates higher and weighed on equity valuations. The S&P 500 fell 0.2% and the Nasdaq lost 0.1%. The Dow Jones bucked the trend and was 0.2% higher.

The ASX 200 plunged 1.8% yesterday, following the weak lead from US equity markets. The fall was the second largest daily percentage drop of 2024 and the third largest since November 2022. All 11 sectors were deeply in the red and down by over 1%. Consumer discretionary (-2.4%), utilities (-2.2%) and materials (-2.0%) were the worst performers and each lost 2% or more. Futures are pointing to a further decline in today's session.

Interest Rates: Bond yields extended their moves higher as traders continued to price in the chance that the Fed may need to remain on hold for longer than previously expected. The US 2-year treasury yield jumped 7 basis points, to close at 4.99% after briefly touching 5%. This was its highest close since November. Similarly, the 10-year yield also jumped 7 basis points, to close at 4.67% and making a fresh high since November.

Interest-rate markets are pricing a 92% chance of a cut in September, with November being the first meeting where a cut is fully priced. For 2024, markets are pricing 41 basis points of cuts – slightly less than two 25-basis-point cuts.

Movements in Australian government bond yields (futures) were more muted than moves in the US. The 3-year (futures) yield rose 3 basis points, to 3.90%, while the 10-year (futures) yield was 4 basis points higher, at 4.38%. Interest-rate markets are pricing the first move from the RBA to occur in 2025, not 2024. Markets now have only an 82% chance (or 21 basis points) priced for a move by the end of the year. This compares with a move being fully priced by December yesterday.

Foreign Exchange: The US dollar extended its gains against major currencies as interest rates continued their march higher. The USD Index rose from a low of 106.07 to a high of 106.52 – the highest since November. It was trading at 106.37 at the time of writing.

The Japanese yen continues to depreciate against the stronger USD. The USD/JPY cross moved closer to the 155 mark that has been noted by some as a potential threshold for intervention by Japanese authorities. It was trading at 154.68 at the time of writing.

Similarly, the AUD/USD pair lost ground against the USD and dropped to its lowest level for the 2024 and the lowest since November. It fell from a high of 0.6445 to a low of 0.6390. It later recovered some ground and was trading just above the 0.6400 handle – at 0.6401 – at the time of writing.

Commodities: Oil continued to trade broadly sideways amid a lack of either material escalation or de-escalation in the Middle East. Copper, iron ore and coking coal were higher, while gold and thermal coal declined.

Australia: There were no major economic data releases yesterday.

China: A range of economic data painted a somewhat mixed and muddled picture regarding the country's current growth trajectory.

On the one hand, stronger-than-expected GDP and fixed asset investment data for the first quarter of 2024 suggested that the economy remains on track to meet its 2024 growth target of around 5%. However, this good news was offset by weaker-than-expected outcomes for retail sales and industrial production, resulting in a mixed read and markets were unconvinced around the strength of the growth pulse in 2024, suggesting more policy support may be required to sustainably hit the 2024 growth target.

The economy grew by 5.3% in Q1 of 2024 in annual terms. This was stronger than the 4.8% outcome expected by consensus and followed 5.2% annual growth over 2023. In quarterly terms, grow was 1.6% in the March quarter. This was above an expected 1.5% outcome and up from 1.2% growth in the previous quarter – which was revised higher from an initial 1.0% reading.

Fixed asset investment, ex. rural, also surprised to the upside. Fixed asset investment, ex. rural was 4.5% in year-to-date terms in March. This was above expectations of 4.2% growth and up from a 4.2% YTD growth rate in February.

On the other hand, retail sales surprised to the downside. Retail sales grew 3.1% in annual terms in March against expectations of 4.8% growth. Consumers remain downbeat as confidence is weak and household wealth has been negatively impacted by the weakness in the property sector. That weakness in the property sector continues, as property investment plunged 9.5% in year-to-date terms in March. This was worse than the 9.2% fall expected by consensus and extends the decline from the 9.0% YTD fall in February.

Industrial production was also weaker than expected – growing by 4.5% in annual terms in March compared to expectations for 6.0% growth.

Eurozone: The German ZEW expectations survey rose by more than expected in April. The survey bounced to a reading of 42.9 in the month, up from 31.7 in the prior month. This was above expectations for a milder increase to 35.5. This measure has been trending higher since hitting a recent trough in mid 2023. However, views on the current situation remained deeply pessimistic and rose by less than expected. The current situation index rose to -79.2 in April, from -80.5 in March. This was weaker than the expected increase to -76.0. Expectations across the wider eurozone also rose, from 33.5 last month to 43.9 in April.

The trade surplus narrowed in February to €17.9 billion. This was down from a €27.1 billion surplus in January and was below expectations for a €21.8 billion surplus.

United Kingdom: The unemployment rate rose to 4.2% in the quarter to February. This was up from 4.0% in the three months to January and was above expectations, which were centred on a 4.0% reading. The upward move sees the unemployment rate rising to a six-month high as the labour market cools under the weight of tight monetary policy.

Employment growth was weak over the quarter. Employment fell by 156k over the three months to February. This compared with a fall of 89k in the previous three-month period – which was revised lower from an initial 21k fall – and was well below expectations for a gain of 74k.

On the other hand, wages growth was stronger than expected. Average weekly earnings rose 5.6% in annual terms over the quarter to February. This was unchanged from the previous period and compared to expectations of a slow down to 5.5%.

United States: Industrial production was in line with expectations in March, while February data was revised higher, adding to other economic data showing that the economy remains resilient. Industrial production grew 0.4% in March, in line with expectations. This was also in line with the 0.4% reading from February – revised higher from an initial 0.1% gain.

Capacity utilisation remained elevated, rising from

78.2% in February to 78.4% in March – slightly below the expected 78.5% outcome.

On the other hand, housing data surprised to the downside. Housing starts plunged 14.7% in March, well below the milder 2.4% drop expected by consensus. However, this followed a 12.7% jump in the prior month. Building permits were also weak – falling 4.3% in Mrach against expectations for a 0.9% drop. This followed a 2.3% gain in the prior month.

Fed Chair Jerome Powell spoke overnight and suggested that rates may need to stay higher for longer than previously indicated by Fed officials given the stronger-than-expected run of inflation and labour market data. Chair Powell stated that this recent data "have clearly not given us greater confidence and instead indicate that is likely to take longer than expected to achieve that confidence."

He noted that the Fed can retain the current tightness of monetary policy for "as long as needed" if inflation remained elevated. He also added that "given the strength of the labour market and progress on inflation so far, it is appropriate to allow restrictive policy further time to work and let the data and the evolving outlook guide us".

World: The International Monetary Fund (IMF) released its latest World Economic Outlook (WEO) report. The IMF noted that economic activity was surprisingly resilient through the global disinflation of 2022–23, despite significant central bank interest rate hikes to restore price stability. Risks were viewed as broadly balanced compared with last year.

Global growth expectations for 2024 were slightly upgraded to 3.2% from 3.1%. Growth in 2025 is also expected to come in at 3.2%. This reflected a slight acceleration for advanced economies – such as the US – partly offset by a modest slowdown in emerging market and developing economies.

Global inflation is expected to decline steadily and advanced economies are expected to return to their inflation targets earlier than emerging market and developing economies. Core inflation is expected to decline more slowly than headline inflation.

Today's key data and events:

AU WBC Leading Index Mar prev +0.08% (10:30am)

NZ CPI Q1 q/q exp 0.6% prev 0.5% (8:45am)

UK CPI Mar exp0.4% prev 0.6% (4pm)

US Total Net TIC flows Feb prev -$8.8b (6am)

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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