Morning Report

Wednesday, 31 January 2024

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Equities (close & % change)		
S&P/ASX 200	7,600	0.3%
US Dow Jones	38,476	0.4%
Japan Nikkei	36,066	0.1%
China Shanghai	2,967	-1.8%
German DAX	16,972	0.2%
UK FTSE100	7,666	0.4%
Commodities (close & change)		
CRB Index	274.0	3.1
Gold	2,036.07	2.8
Copper	8,486.50	7.5
Oil (WTI futures)	77.87	1.1
Coal (thermal)	120.50	5.0
Coal (coking)	333.00	1.0
Iron Ore	132.05	-0.8

Sydney Futures Exchange (last & change)				
	Last		Overnight Chg	
10 yr bond	4.16		0.00	
3 yr bond	3.71		0.02	
3 mth bill rate	4.29		-0.01	
SPI 200	7,566.0		-1	
FX Last 24 hrs	Open	High	Low	Current
TWI	61.5	-	-	61.5
AUD/USD	0.6612	0.6625	0.6575	0.6601
AUD/JPY	97.50	97.59	97.12	97.44
AUD/GBP	0.5202	0.5213	0.5194	0.5199
AUD/NZD	1.0779	1.0790	1.0758	1.0762
AUD/EUR	0.6104	0.6116	0.6069	0.6087
AUD/CNH	4.7516	4.7579	4.7286	4.7451
USD Index	103.48	103.61	103.31	103.43

Interest rates (close & change)		
Australia		
90 day BBSW	4.34	-0.01
2 year bond	3.83	-0.03
3 year bond	3.72	-0.04
3 year swap	3.93	0.03
10 year bond	4.14	-0.08
United States		
3-month T Bill	5.20	0.01
2 year bond	4.36	0.04
10 year bond	4.05	-0.02
Other (10 year yields)		
Germany	2.27	0.03
Japan	0.72	-0.01
UK	3.90	0.02

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: Short-term bond yields were higher overnight as stronger-than-expected job openings data suggested that the labour market remains tight and that risks may be skewed to the upside for jobs data later this week. As a result, the probability of near-term cuts from the Fed was pared back. Equity markets pulled back from record highs, while the US dollar ended the session not far from where it started.

Investors will be closely watching the outcome of the Federal Reserve meeting, with the decision to be delivered early tomorrow morning.

Share Markets: The share market rally cooled and shares pulled back from record high as investors await key earnings data from tech giants Microsoft and Alphabet (parent company of Google).

The S&P 500 ended 0.1% lower, while the Nasdaq lost 0.8%. The Dow Jones bucked the trend and was 0.3% higher.

The ASX 200 gained 0.3% yesterday – closing only 0.4% away from its record high close back in August 2021. Futures are pointing to a flat open today.

Interest Rates: Short-term bond yields rose as stronger-than-expected labour market data decreased the probability of rate cuts from the Fed beginning as soon as March. The 2-year treasury yield rose 4 basis points – to 4.36%. The 10-year yield was 2 basis points lower, at 4.05%.

Interest-rate markets are attaching roughly a 40% probability of a cut from the Fed in March. This compares with around a 45% chance of a March cut a day earlier. To the end of 2024, markets are pricing around 132 basis points of cuts.

The 3-year Australian government bond yield (futures) rose 2 basis points, to 3.71%. The 10-year (futures) yield was unchanged, at 4.16%. Interest-rate markets continue to price no chance of a hike from the RBA in February and almost 50 basis points of cuts by the end of 2024. Markets will be closely watching the December quarter CPI data being released today.

Foreign Exchange: The US dollar ended the session broadly unchanged after swinging between gains and losses. The USD Index ranged between a low of 103.31 and a high of 103.61, before moving to 103.43 at the time of writing.

The AUD/USD pair remained in a narrow range either side of the 0.6600 handle. The pair ranged between 0.6575 and 0.6625 and was trading at 0.6601 at the time of writing.

Commodities: Oil prices firmed and the West Texas Intermediate (WTI) futures price rose to US$77.87. Iron ore pulled back, while coal, copper, and gold were all higher.

Australia: Consumer spending continued to show signs of weakness in December as retail sales dropped 2.7%. This more than unwound the 1.6% bounce in November following Black Friday sales and is the biggest drop in over 3 years.

Falls were evident across all industries, except for food (+0.1%). In fact, across all non-food categories, falls in December were large enough to more than unwind the jumps in November.

Discretionary spending was hard hit. Household goods (-8.5%) recorded the largest monthly drop in 23½ years and were 2.6% lower compared to October (i.e. pre Black Friday). Department stores (-8.1%) was the next weakest and were a material 4.3% below their October level.

Looking through the month-to-month volatility, spending remains under pressure. On a rolling three-month basis, retail trade in the December quarter was only a lacklustre 0.5% higher compared to the September quarter. Importantly, this is in nominal terms, implying that the volume of retail spending was very weak in the quarter given inflation remains elevated.

Per capita outcomes are even bleaker. On a monthly basis, per capita retail trade dropped 2.9%, following a 1.3% gain in November. On a rolling quarterly basis, nominal retail spending fell 0.2% in the December quarter and was down a whopping 2.2% in annual terms, before accounting for inflation – the weakest annual result in history (excluding COVID).

Spending is likely to remain under intense pressure for some time. Material relief for households is unlikely to come until the second half of 2024. By then, inflation is expected to be notably lower, interest rate cuts are likely, and households will benefit from recently revised tax cuts.

Eurozone: The region managed to avoid a technical recession at the end of 2023 by the skin of its teeth. GDP growth was flat in Q4 2023. This followed a 0.1% contraction in Q3. The outcome was slightly above expectations for another 0.1% contraction. This means that the region has narrowly avoided a technical recession – defined as two consecutive quarters of contraction. However, the difference is largely a matter of semantics. Growth is anaemic in either case. For example, in annual terms, growth was only 0.1% for the 2023 year, almost flat for an entire 12 months. The result demonstrates the challenges facing the region.

Economic confidence fell slightly in January to 96.2. This followed a 96.3 outcome in December. The result was slightly above consensus expectations of 96.1.

Separately, the final January reading of consumer confidence was unchanged from its preliminary estimate of -16.1.

Japan: The jobless rate fell in December to 2.4%, from the November reading of 2.5%. This was below consensus expectations, which centred on an unchanged reading. The job-to-applicant ratio was also slightly lower in December, falling to 1.27 from the previous reading of 1.28. The ratio was expected to remain unchanged.

The data showed that the labour market remains around its tightest level in year. However, it was a somewhat mixed pictured. Unemployment came in lower than expected, while labour demand softened slightly.

United States: The JOLTS job openings report surprised to the upside, suggesting that the labour market remains tight and hinting that employment data later this week may show further robust job gains. Job openings rose to 9.025 million in December – a three-month high. This followed an upwardly revised reading of 8.925 in November (revised higher from an initial reading of 8.790 million). The outcome was stronger than the 8.750 million reading expected by consensus.

The conference board consumer confidence reading was in line with consensus expectations – rising to 114.8 in January, from 108.0 in December. Readings for the present situation jumped to 161.3, from 147.2. Views on future expectations were also stronger – rising to 83.8, from 81.9.

House prices continued to rise in November. The FHFA house price index rose 0.3% in the month – in line with consensus expectations and growth in the prior month.

Separately, the S&P CoreLogic Case-Shiller 20-city house price index also rose in the month. The index was 0.15% higher in November, following 0.63% in October. However, the outcome was lower than consensus expectations of 0.50%. In annual terms, house prices rose 5.40%.

The Dallas Fed services activity index declined in January – falling to -9.3 in the month. This followed a -8.8 outcome in December.

Today's key data and events:

JP Ind. Production Dec prev -0.9% (10:50am)
NZ ANZ business conf Jan prev 33.2 (11am)
AU Priv. cred Dec exp 0.4% prev 0.4% (11:30am)
AU CPI Q4 (11:30am)
  Headline q/q exp 0.8% prev 1.2%
  Headline y/y exp 4.3% prev 5.4%
  Underlying q/q exp 0.9% prev 1.2%
  Underlying y/y exp 4.4% prev 5.2%
AU Mnthly CPI Dec exp 3% prev 4.3% (11:30am)
CH Mfg PMI Jan prev 49 (12:30pm)
CH Non-mfg PMI Jan prev 50.4 (12:30pm)
UK Nationwide House Prices Jan exp 0.1% prev 0.0% (6pm)
EZ CPI Jan prev 0.1% (12am)
US ADP Emp Jan exp 130k prev 164k (12:15am)
US ECI Q4 exp 1.0% prev 1.1% (12:30am)
US FOMC Decision exp 5.5% prev 5.5% (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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