Morning report

Thursday, 22 February 2024

Equities (close & % change)		
S&P/ASX 200	7,608	-0.7%
US Dow Jones	38,612	0.1%
Japan Nikkei	38,262	-0.3%
China Shanghai	3,094	1.0%
German DAX	17,118	0.3%
UK FTSE100	7,663	-0.7%
Commodities (close & change)		
CRB Index	274.0	3.2
Gold	2,024.93	0.5
Copper	8,458.99	72.7
Oil (WTI futures)	78.01	1.0
Coal (thermal)	124.10	1.8
Coal (coking)	307.00	0.0
Iron Ore	119.55	0.5

Sydney Futures Exchange (last & change)				
	Last		Overnight Chg	
10 yr bond	4.23		0.05	
3 yr bond	3.77		0.05	
3 mth bill rate	4.32		0.01	
SPI 200	7,539.0		-22	
FX Last 24 hrs	Open	High	Low	Current
TWI	61.3	-	-	61.3
AUD/USD	0.6554	0.6573	0.6533	0.6549
AUD/JPY	98.29	98.60	98.19	98.37
AUD/GBP	0.5192	0.5202	0.5180	0.5184
AUD/NZD	1.0624	1.0630	1.0595	1.0597
AUD/EUR	0.6063	0.6077	0.6049	0.6054
AUD/CNH	4.7201	4.7243	4.7055	4.7148
USD Index	104.04	104.21	103.94	104.00

Interest rates (close & change)		
Australia		
90 day BBSW	4.33	0.00
2 year bond	3.82	-0.02
3 year bond	3.73	-0.02
3 year swap	3.97	0.04
10 year bond	4.17	-0.01
United States		
3-month T Bill	5.23	0.02
2 year bond	4.66	0.05
10 year bond	4.31	0.04
Other (10 year yields)		
Germany	2.45	0.08
Japan	0.73	-0.01
UK	4.10	0.06

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: Investors awaited the release of the minutes from the Federal Reserve's most recent January meeting for any hints of what Fed members want to see before they become comfortable lowering rates. The minutes confirmed that most Fed members were concerned around the risk of cutting too quickly and that this risk was viewed as greater than that of waiting for more information.

Equity investors were tentative overnight as they awaited earnings from tech heavyweight Nvidia. Bond yields were higher as a 20-year treasury auction was poorly subscribed. The USD ended flat on the session with little in the way of movement in either direction. The AUD similarly ended around where it started.

Share Markets: There was a cautious tone overnight as investors awaited results from Nvidia following the close of markets. The chipmaker is a key part of the AI revolution and investors will be watching the results closely to inform views on the lofty market valuations for the "magnificent seven".

The S&P 500 lost 0.1% and the Nasdaq fell 0.3%. The Dow Jones bucked the trend and rose 0.1%.

The ASX 200 fell 0.7% yesterday. Seven of 11 sectors were in the red. Consumer staples was the worst performer, dropping 4.3% on the day. IT and utilities were the strongest performers, up more than 1% each. Futures are pointing to a soft open today.

Interest Rates: Bond yields rose during the session as a 20-year treasury auction was poorly subscribed. The US 2-year treasury yield rose 5 basis points, to 4.66%, while the 10-year yield was 4 basis points higher, at 4.31%.

Interest-rate markets are attaching a 92% probability of a cut from the Fed at the June meeting – down from 102% yesterday. Markets are pricing around 88 basis points of cuts through 2024.

Australian government bond yields mimicked moves in the US. The 3-year and 10-year government bond yield (futures) both rose 5 basis points, to 3.77% and 4.23%, respectively. Markets attach a 95% probability of a cut from the RBA by the August meeting, with a cut fully priced by September. Around 45 basis points of cuts are currently priced for 2024.

Foreign Exchange: The US dollar was broadly unchanged against a basket of major currencies as it traded in a very narrow range. The USD Index ranged between a low of 103.94 and a high of 104.21. It was hovering around the 104 level at the time of writing.

The AUD/USD pair also ranged sideways over night for not much net movement. The pair traded between high of 0.6573 and a low of 0.6533, before settling at just below 0.6550 at the time of writing.

Commodities: Iron ore steadied at just under US$120 per tonne after falling sharply in recent days from above US$130 per tonne. Other key commodities were also higher, including oil, coal, copper and gold.

Australia: The Wage Price Index (WPI) increased 0.9% over the December quarter to be 4.2% higher in annual terms – the strongest since the mining boom in 2009. The quarterly outcome was consistent with average growth over the past year. Public sector wages led the way, up 1.3% over the quarter, the strongest since December 2008. Private sector wages moderated to 0.9%.

While the headline read was solid, looking at the detail provides further evidence that the labour market is slowing. Firstly, the public sector outperformed. Wages in the public sector are mainly determined by enterprise agreements – these take time to update, negotiate and come into effect. As such, they reflect previous strength in the labour market and policy changes. Wages in sectors where activity is more closely tied to current conditions continue to moderate.

Secondly, bonuses, which were once important to attract and keep staff in a tight market are no longer prevalent. In fact, wages growth including bonuses was lower than wages growth excluding bonuses for the first time since COVID. Finally, the share of private sector employees receiving pay rises was down from a year ago, also pointing to a softening in conditions.

Looking forward, the recent fall in hours worked points to a softening in wages growth. Historically, when growth in hours has been below trend of around 1.5% per annum, resulting in rising underemployment, wages growth tends to moderate to be below 3.5%. This is consistent with our outlook that has wages stepping down to 3.2% by the end of 2024.

Wages growth of 3.5% is consistent with the Reserve Bank's (RBA) inflation target, provided productivity returns to average, which we are confident will happen as capital catches up to hours worked. So where does this leave the RBA? Today's numbers are consistent with our view that the next cash rate move is down and that this will occur in September.

The six-month annualised growth rate in the Westpac-Melbourne Institute Leading Index, which indicates the likely pace of economic activity relative to trend three to nine months into the future, declined to -0.25% in January from -0.01% in December. A fall in aggregate monthly hours worked was the main drag on the index in the month.

New Zealand: Growth in producer prices slowed in the December quarter. Specifically, producer output prices rose 0.7% in the quarter, following a 0.8% rise in the September quarter. In annual terms, producer output prices were 2.0% higher in the December quarter. Producer input prices rose 0.9% in the quarter and 1.9% in annual terms. This followed quarterly growth of 1.2% in the September quarter.

The largest output industry contributions were from dairy cattle farming (7.3%), and property operators & real estate services (1.1%). These offset a 4.5% fall in dairy product manufacturing. The largest input industry contributions were from dairy product manufacturing (5.5%), electricity & gas supply (5.8%), and basic chemical & chemical product manufacturing (2.8%).

Eurozone: Consumer confidence was in line with expectations for February. The index rose slightly from the -16.1 reading in January, to a still deeply negative -15.5 reading in February. The index has struggled to break above the -15 barrier and has been below this level since early 2022. The bright side is that the readings are well above the lows from 2022 of -28.6.

United Kingdom: Public sector net borrowing moved back into negative territory in January – indicating a budget surplus for the month. Net borrowing fell to -£17.6 billion in January, compared to consensus expectations of -£15.5 billion. This followed a deficit of £6.5 billion in December.

United States: FOMC members were more concerned about the risk of cutting rates too early in their fight to get inflation back to target than the risk of keeping rates higher for longer, as indicated by the minutes from the January meeting. Some members were concerned that progress towards their 2% target would stall. As flagged by Fed Chair Jerome Powell in his press conference after the meeting, members are waiting to gather more evidence that inflation is sustainably back towards their 2% target before they begin a rate cutting cycle.

FOMC members Thomas Barkin and Michelle Bowman spoke overnight. Barkin reiterated a cautious tone around the path of inflation. He noted that price pressures across certain sectors, including housing, were still too high, and flagged concerns that inflation would remain sticky once goods disinflation largely runs its course.

Bowman pushed back against the prospects of any near-term cuts. She noted that uncertainty around the outlook ensured that the time for cuts was "certainly not now". She added that "there is plenty of time, I think, for us to get more confidence in where the economy is heading".

Today's key data and events:

NZ Trade Balance Jan prev -$323m (8:45am)

EU Markit Mfg PMI Feb exp 47.0 prev 46.6 (8pm)

EU Markit Services PMI Feb exp 48.8 prev 48.4 (8pm)

UK Markit Mfg PMI Feb exp 47.5 prev 47.0 (8:30pm)

UK Markit/CIPS Services PMI Feb exp 54.1 prev 54.3 (8:30pm)

US Chicago Fed Nat Act Index Jan exp -0.22 prev -0.15 (12:30am)

US Markit Mfg PMI Feb exp 50.5 prev 50.7 (1:45am)

US Markit Services PMI Feb exp 52.4 prev 52.5 (1:45am)

US Existing Home Sales Jan exp 4.9% prev -1.0% (2am)

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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