

Monday, 11 March 2024

All Eyes on US Inflation

After a deluge of data in Australia last week, the data calendar takes a big breather this week. The only notable release is the monthly business survey tomorrow, which should continue to show that business conditions are holding up okay. Elevated capacity utilisation, slowing in inflation and strong financial buffers are keeping businesses cautiously upbeat. What's more, the recent business capital expenditure surveys suggest non-mining businesses plan to continue to invest and expand, which will provide some resilience to the slowdown underway in the broader economy.

Business sentiment is in stark contrast to consumers. Consumers have remained downbeat and pessimistic about economic conditions for a prolonged time. Business sentiment, whilst tapering off, is not far from long-run averages. It might take the start of a rate-cutting cycle in Australia to shake Australian consumers from this pessimism. Our Group view remains for the first rate cut to come in September. Interest-rate markets are fully priced for a cut in August compared with September before last week's GDP outcome, which showed that the Aussie economy was toddling along near the end of last year.

All eyes will be on US interest-rate markets this week. The US inflation report for February is set for release tomorrow night AEDT. The consensus forecast is for core inflation (i.e. inflation excluding food & energy) to rise by 0.3% in February, after a 0.4% lift in January. An outcome in line with this forecast will see the annual core inflation rate moderate from 3.9% in January to 3.7%. If realised, this would be the smallest since April 2021. Since the start of the year interest-rate markets have pulled back the number of rate cuts expected this year from six to three. This has been creeping a little closer towards four in the last two weeks and Friday's jobs report in the US supported this momentum. The unemployment rate hit a two-year high of 3.9% but the number of net new jobs added in the economy exceeded expectations (275k vs 200k). The mixed data supports a cooling labour market and does little to dissuade markets that the US economy is headed for a soft landing.

Attention is also on Japan after fresh data today showed its economy escaped a recession at the end of 2023. Gross domestic product (GDP) expanded at an annualised rate of 0.4% in the final quarter of last year, a revision from the 0.4% decline initially reported. The data comes ahead of next week's Bank of Japan (BoJ) meeting where the timing of the first rate hike may be considered. Consensus among economists surveyed in a Bloomberg poll expect negative interest rates to be scrapped on March 19 or next month. Ahead of the BoJ meeting, the annual pay negotiations between companies and labour unions will be eyed. The constituents of the union federation have asked for an average raise of 5.85%, which would be the biggest pay hike since the early 1990s. It compares with demands for a rise of 4.49% last year. BoJ's Governor Ueda has repeatedly cited the importance of wage negotiations for sustaining inflation at the target.

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Group Forecasts

End Period:	Close (08 Mar)	Q1 (f)	Q2 (f)	Q3 (f)	Q4 (f)	Q1 (f)	Q2 (f)
Aust. Interest Rates:							
RBA Cash Rate, %	4.35	4.35	4.35	4.10	3.85	3.60	3.35
90 Day BBSW, %	4.35	4.40	4.37	4.12	3.92	3.67	3.47
3 Year Swap, %	3.82	4.05	3.95	3.85	3.75	3.65	3.60
10 Year Bond, %	3.97	4.20	4.05	3.95	3.85	3.90	3.90
US Interest Rates:							
Fed Funds Rate, %	5.375	5.375	5.125	4.625	4.375	4.125	3.875
US 10 Year Bond, %	4.07	4.15	4.00	3.90	3.80	3.85	3.90
USD Exchange Rates:							
AUD-USD	0.6624	0.66	0.68	0.69	0.70	0.71	0.72
USD-JPY	147.06	147	144	141	138	135	132
EUR-USD	1.0939	1.09	1.11	1.13	1.14	1.15	1.16
GBP-USD	1.2858	1.26	1.27	1.28	1.29	1.30	1.30
NZD-USD	0.6177	0.62	0.63	0.64	0.64	0.64	0.65
AUD Exchange Rates:							
AUD-USD	0.6624	0.66	0.68	0.69	0.70	0.71	0.72
AUD-EUR	0.6057	0.61	0.61	0.61	0.61	0.62	0.62
AUD-JPY	97.46	97.0	97.2	97.3	96.6	95.9	95.0
AUD-GBP	0.5151	0.52	0.53	0.54	0.54	0.55	0.55
AUD-NZD	1.0727	1.06	1.07	1.08	1.09	1.11	1.11

	2022	2023 (f)	2024 (f)	2025 (f)
GDP, %	2.3	1.4	1.6	2.5
CPI (Headline), %	7.8	4.1	3.0	2.7
CPI (Trimmed mean), %	6.8	4.2	3.1	2.8
Unemployment Rate, %	3.4	3.8	4.5	4.6
Wages Growth, %	3.3	4.2	3.2	3.1

AUD cross exchange rates have been rounded.

Financial forecasts are quarter end.

GDP, CPI, employment and wage growth forecasts are year end.

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