Morning report

Bank of Melbourne

Friday, 5 April 2024

Equities (close & % change)		
S&P/ASX 200	7,817	0.4%
US Dow Jones	38,597	-1.4%
Japan Nikkei	39,773	0.8%
China Shanghai	3,218	-0.2%
German DAX	18,403	0.2%
UK FTSE100	7,976	0.5%
Commodities (close & change)		
CRB Index	296.3	1.1
Gold	2,290.94	-9.1
Copper	9,171.53	264.3
Oil (WTI futures)	86.59	1.2
Coal (thermal)	130.30	-2.1
Coal (coking)	228.00	-7.0
Iron Ore	97.75	0.0

Sydney Futures Exchange (last & change)				
	Last		**Overnight Chg**	
10 yr bond	4.13		-0.06	
3 yr bond	3.66		-0.05	
3 mth bill rate	4.29		0.00	
SPI 200	7,803.0		-63	
FX Last 24 hrs	Open	High	Low	Current
TWI	61.5	-	-	61.5
AUD/USD	0.6565	0.6619	0.6561	0.6588
AUD/JPY	99.58	100.40	99.48	99.69
AUD/GBP	0.5189	0.5226	0.5186	0.5211
AUD/NZD	1.0925	1.0956	1.0913	1.0935
AUD/EUR	0.6058	0.6093	0.6056	0.6079
AUD/CNH	4.7587	4.7953	4.7572	4.7760
USD Index	104.25	104.26	103.92	104.22

Interest rates (close & change)		
Australia		
90 day BBSW	4.34	0.00
2 year bond	3.79	0.03
3 year bond	3.74	0.03
3 year swap	3.91	-0.01
10 year bond	4.18	0.04
United States		
3-month T Bill	5.20	-0.01
2 year bond	4.65	-0.02
10 year bond	4.31	-0.04
Other (10 year yields)		
Germany	2.36	-0.03
Japan	0.79	-0.01
UK	4.02	-0.04

Data as at 8:30am AEDT. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: Investors reacted to comments from a range of Fed speakers and continue to await key jobs data on Friday. The comments from Fed speakers generally continued the recent theme of noting caution around the path of interest rates and that the Fed has time to assess the evolution of the data. Neel Kashkari stood out among the speakers as flagging the prospect that the Fed might not cut rates at all this year if progress on inflation stalls.

Equity investors reacted to the comments and geopolitical concerns and equity markets dropped sharply. Bond yields ended the session lower despite the Fed comments. The US dollar was slightly weaker against major currencies.

Share Markets: Equity investors took some risk off the table amid comments from Fed speakers and increasing geopolitical concerns around the Middle East – which contributed to the price of oil rising further overnight. The S&P 500 lost 1.2%, while the Nasdaq and Dow Jones each lost 1.4%.

The ASX 200 gained 0.4% yesterday. Futures are pointing to a drop on the open today, taking the lead from US markets.

Interest Rates: Bond yields ended the session lower (i.e. bond prices were higher) after initially rising during the session – likely reflecting some flight to safety as risk sentiment among equity investors soured. The US 2-year treasury yield closed 2 basis points lower, at 4.65%. The 10-year yield was down 4 basis points, to 4.31%. The comments from Fed speakers didn't make much of a dent to market pricing for cuts in 2024. Indeed, market pricing for cuts rose slightly. Interest rate markets are pricing almost a 75% chance of a cut at the June meeting – up from a 64% chance a day earlier. By the end of 2024, markets expect around 74 basis points of cuts – not far from yesterday's expectation of 71 basis points of cuts.

Moves in Australian government bond yields (futures) were slightly more pronounced than moves in the US. The 3-year (futures) yield fell 5 basis points, to 3.66%. The 10-year (futures) yield was 6 basis points lower, at 4.13%. Interest-rate markets are pricing an 80% chance of a cut from the RBA by September. The first cut is fully priced by November and around 36 basis points of cuts are priced for 2024.

Foreign Exchange: The US dollar lost a little ground against a basket of major currencies. The USD Index ranged between a high of 104.26 and a low of 103.92. It was trading at 104.22 at the time of writing – not far from its 104.25 open.

The AUD/USD pair rose during the session – rising above the 0.6600 handle but later falling back below it. It traded from a low of 0.6561 to a high of 0.6619 during the crossover of the London and New York sessions. It puled back towards the end of the New York session and closed at 0.6588.

Commodities: Oil prices continued to move higher. The West Texas Intermediate (WTI) futures price rose to US$86.59 per barrel. This was the highest level since October 2023 and continues the steady trend higher in oil prices over the past two months. Rising geopolitical tensions in the Middle East continue to weigh on oil markets, including the risk that supply may be impacted if conflict escalates between major countries in the region.

Gold was lower on the day, as was thermal and coking coal. Copper was higher, while iron ore steadied.

Australia: The total number of dwelling approvals fell 1.9% in February. This was weaker than the 3.0% gain expected by consensus and followed a 2.5% decline in January – revised lower from an initial 1.0% fall. This was the third consecutive month of declines.

The outcome came despite a large 10.7% increase in approvals for private sector houses, which more than offset a 9.9% decline in the previous month in this category.

However, the total dwelling approval number was dragged down by a 24.9% plunge in private sector dwellings excluding houses (i.e. apartments and townhouses). This is a very volatile component of this data release and regularly records large monthly swings in either direction. A drop in approvals for large apartments was the driver of this plunge and drove the number to the lowest level since January 2012.

Private sectors house approvals were positive across all states. WA (20.7%), NSW (17.0%), and Victoria (12.4%) were the standouts in the month. Approvals for apartments and townhouses were mixed across the country, Queensland, WA and Victoria all recorded large falls, while approvals in NSW and SA jumped in the month.

Reserve Bank Assistant Governor (Financial System) Brad Jones spoke yesterday about the challenges and opportunities for financing innovation by Australian small and medium-sized enterprises (SMEs).

His speech had two key themes. Firstly, the importance of SMEs to innovation in Australia has been increasing, particularly in professional, scientific and technical services. For example, R&D expenditure by SME's has been steadily growing since around 2010 and now accounts for a larger share of total R&D expenditure than large firms.

Secondly, despite progress on this front, more needs to be done with regard to Australia's financial system and financial policy settings to support the SME sector in accessing funding to drive innovation.

Eurozone: Producer prices fell further in February and extended the run of monthly declines to four consecutive months. The producer price index dropped 1.0% in the month. This followed a 0.9% fall in January and was below expectations of a 0.7% fall. In annual terms, producer prices were 8.3% down in the 12 months to February. This followed an 8.0% drop in the 12 months to January – revised from an initial 8.6% fall. The annual result compared to expectations of an 8.6% decline.

Energy prices continued to be a major driver of the fall. In February, energy prices were 3.5% lower, more than offsetting increases in prices of other components. Indeed, excluding energy, producer prices were slightly higher in the month – rising 0.1%. In annual terms, the unwind of energy price spikes is also a key driver. Energy prices plunged 21.1% over the 12 months to February.

New Zealand: Building permits jumped 14.9% in February, more than offsetting an 8.6% decline in January. The gain reflected a 12.4% increase in house approvals, which followed a 9.4% fall in this sub-category in January. However, despite the monthly gain, building permits are still well below levels a year ago and the construction sector continues to face challenges. In annual terms, building permits fell 24.8% in the 12 months to February. This was slightly better than the 26.3% annual fall in the 12 months to January.

United States: The trade deficit widened to $68.9 billion in February. This represented the third consecutive monthly widening of the deficit and sees it rising to the largest level in almost a year. Imports were 2.2% higher in the month, led by gains in consumer goods such as mobile phones, food and beverage, and motor vehicles. This was partly offset by a 2.3% rise in exports, reflecting higher exports of aircraft and oil.

A raft of Fed speakers spoke overnight. Neel Kashkari stood out as warning that it was possible that the Fed would not lower rates at all this year if inflation proved to be stickier and progress on lowering inflation back to the 2% target stalled. He noted that "In March I had jotted down two rate cuts this year if inflation continues to fall back towards our 2% target. If we continue to see inflation moving sideways, then that would make me question whether we needed to do those rate cuts at all".

Patrick Harker warned that inflation remained too high, despite a resilient economy and strong jobs growth. He flagged that "we're not where we need to be". Thomas Barkin said that "no one wants inflation to reemerge" and preached patience for the Fed in an environment where the economy and labour market remain robust. He said that "given a strong labour market, we have time for the clouds to clear before beginning the process of toggling rates down".

Austan Goolsbee remained confident that inflation was on its way back to the 2% target, noting that recent stronger-than-expected inflation data "should not knock us off the path back to target". Loretta Mester also expressed patience as she wanted "to see a couple more months data" to determine whether the Fed remains on the path back to their 2% target. She added that she "did anticipate that we'll see inflation moving down and now we need to see more evidence that confirms that. And once I see that, then I think we're in a position to move interest rates down".

Today's key data and events:

AU Trade Balance Feb exp $9.7bn prev $11.0bn (11:30am)

EZ Ger. Factory Orders Feb exp 0.7% prev -11.3% (5pm)

EZ Retail Sales Feb exp -0.4% prev 0.1% (8pm)

US Non-farm Payrolls Change Mar exp 213k prev 275k (11:30pm)

US Unemployment Rate Mar exp 3.8% prev 3.9% (11:30pm)

US Average Hourly Earnings Mar exp 0.3% prev 0.1% (11:30pm)

US Consumer Credit Feb exp $15.7b prev $19.5b (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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