Morning report

Bank of Melbourne

Friday, 9 February 2024

Equities (close & % change)		
S&P/ASX 200	7,639	0.3%
US Dow Jones	38,726	0.1%
Japan Nikkei	36,863	2.1%
China Shanghai	3,004	1.3%
German DAX	16,964	0.2%
UK FTSE100	7,595	-0.4%
Commodities (close & change)		
CRB Index	273.6	3.2
Gold	2,033.41	-1.9
Copper	8,217.00	-95.3
Oil (WTI futures)	76.50	2.6
Coal (thermal)	125.10	1.6
Coal (coking)	316.00	3.0
Iron Ore	127.20	-1.3

Sydney Futures Exchange (last & change)				
	Last		Overnight Chg	
10 yr bond	4.15		0.03	
3 yr bond	3.68		0.03	
3 mth bill rate	4.32		0.01	
SPI 200	7,590.0		-5	
FX Last 24 hrs	**Open**	**High**	**Low**	**Current**
TWI	61.0	-	-	61.0
AUD/USD	0.6519	0.6532	0.6481	0.6492
AUD/JPY	96.59	97.04	96.53	96.93
AUD/GBP	0.5164	0.5170	0.5140	0.5145
AUD/NZD	1.0673	1.0678	1.0647	1.0656
AUD/EUR	0.6052	0.6058	0.6020	0.6024
AUD/CNH	4.7015	4.7085	4.6780	4.6851
USD Index	104.06	104.43	103.96	104.13

Interest rates (close & change)		
Australia		
90 day BBSW	4.34	0.00
2 year bond	3.77	0.02
3 year bond	3.67	0.02
3 year swap	3.90	0.01
10 year bond	4.11	0.02
United States		
3-month T Bill	5.23	0.00
2 year bond	4.46	0.03
10 year bond	4.15	0.03
Other (10 year yields)		
Germany	2.35	0.04
Japan	0.71	-0.01
UK	4.05	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: Markets were broadly subdued and trading ranges were narrow during a session with little in the way of major news to drive market direction. The S&P 500 managed to very briefly crack the 5,000 mark for the first time. Bond yields ended slightly higher, as did the US dollar, while the Aussie was down.

Share Markets: US equities advanced marginally and the S&P 500 narrowed in on hitting an index level of 5,000 for the first time. After hitting an intra-day high of 4,999.89 yesterday it managed to very briefly crack the 5,000 mark towards the end of the session – hitting a high of 5,000.40 one minute before the close. However, it closed slightly lower immediately afterwards, at 4,997.91. The daily move was a broadly flat 0.1% gain. The Nasdaq was 0.2% higher and the Dow Jones gained 0.1%.

The ASX 200 rose 0.3% yesterday. IT was the standout, rising over 1%. Six of 11 sectors were higher. Futures are pointing to a slightly weaker open today.

Interest Rates: Bond yields ended higher during the session despite a strong auction for $25 billion of long-term bonds. The US 2-year and 10-year treasury yields both rose 3 basis points, to 4.46% and 4.15%, respectively.

Interest-rate markets are attaching a roughly 20% probability of a March cut from the Fed. A cut is not fully priced until June – with 40 basis points of cuts priced by that meeting.

Australian government bond yields (futures) mimicked moves in the US. The Australian 3-year and 10-year (futures) yields both rose 3 basis points, to 3.68% and 4.15%, respectively. Interest-rate markets continue to price slightly over 50 basis points of cuts in 2024, with the first currently priced for August. Investors will be closely watching the Reserve Bank Governor's appearance before the House of Representatives Standing Committee on Economics today.

Foreign Exchange: The US dollar traded in a narrow range during a session with little major news. The USD Index ranged between a low of 103.96 and a high of 104.43, before closing not far from where it opened, at 104.13.

The Aussie lost ground against the USD. The AUD/USD pair slipped from a high of 0.6532 to a low of 0.6481. It was trading at 0.6492 at the time of writing.

Commodities: Oil prices were higher during the session, with the West Texas Intermediate futures price rising to US$76.50. Thermal and coking coal were both also higher. Irone ore, copper and gold all declined on the day.

Australia: There were no major economic data releases yesterday.

China: The pace of deflation accelerated in January, as the consumer price index (CPI) fell by 0.8% in the

12 months to January. This followed deflation of 0.3% over the 12 months to December. The outcome was weaker than expected by consensus, which centred on a -0.5% reading.

The reading suggests that consumer demand continues to remain weak, as consumer sentiment is impacted by the flow-on effects from a weak property market and dented confidence. The outcome also adds to growing calls for fiscal stimulus from authorities to support economic growth and consumer confidence.

Separately, producer prices also continued to decline. The producer price index (PPI) fell 2.5% in annual terms in January. This was not as negative as than consensus expectations of -2.6% and the prior reading of -2.7%.

Continued PPI deflation suggests that exporters are likely to continue to export disinflation to advanced economies, which is helping to bring down goods inflation across many countries.

Japan: The current account surplus narrowed to ¥744.3 billion in December. This followed a surplus of ¥1,925.6 billion in November and was below consensus expectations of a ¥1,138.7 billion surplus.

United States: Consumer borrowing slowed in December – growing at its slowest pace in four months. Credit expanded $1.6 billion in the month, well down from a $23.5 billion expansion in November. The outcome was weaker than the $16.0 billion expansion expected by consensus. Total credit outstanding was at a record high of just over $5 trillion. Growth in consumer credit has been gradually slowing in line with tight monetary policy settings, despite spending being supported by a strong labour market. In 2023, consumer credit grew 2.4% – the weakest gain in three years.

Richmond Fed President Thomas Barkin added to the recent chorus of Fed speakers pushing back against the prospect of near-term rate cuts. He noted that the strong labour market and continued robust demand in the economy provide the Fed with time to assess the slowdown in inflation and be more assured that inflation will sustainably return to the 2% target before cutting rates. He noted that he would specifically "like to see rents and service prices cooling down further". He also noted that if inflation were to return to 2% alongside strong demand, it would indicate a higher neutral rate.

Today's key data and events:

AU RBA Governor Bullock - Testimony (9:30am)

EZ CPI Jan Final (6pm)

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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