Morning report

Bank of Melbourne

Monday, 8 April 2024

Equities (close & % change)		
S&P/ASX 200	7,773	-0.6%
US Dow Jones	38,904	0.8%
Japan Nikkei	38,992	-2.0%
China Shanghai	3,218	-0.2%
German DAX	18,175	-1.2%
UK FTSE100	7,911	-0.8%
Commodities (close & change)		
CRB Index	297.6	1.2
Gold	2,329.75	38.8
Copper	9,223.50	-34.1
Oil (WTI futures)	86.02	-0.9
Coal (thermal)	130.25	1.3
Coal (coking)	226.00	-2.0
Iron Ore	96.80	-1.6

Sydney Futures Exchange (last & change)				
	Last		**Overnight Chg**	
10 yr bond	4.17		0.06	
3 yr bond	3.71		0.06	
3 mth bill rate	4.30		0.01	
SPI 200	7,853.0		38	
FX Last 24 hrs	**Open**	**High**	**Low**	**Current**
TWI	62.1	-	-	62.1
AUD/USD	0.6588	0.6592	0.6549	0.6573
AUD/JPY	99.70	99.83	99.20	99.66
AUD/GBP	0.5211	0.5216	0.5198	0.5204
AUD/NZD	1.0934	1.0958	1.0920	1.0941
AUD/EUR	0.6080	0.6083	0.6055	0.6065
AUD/CNH	4.7758	4.7780	4.7495	4.7645
USD Index	104.22	104.69	104.14	104.29

Interest rates (close & change)		
Australia		
90 day BBSW	4.36	0.01
2 year bond	3.74	-0.06
3 year bond	3.68	-0.06
3 year swap	3.92	0.01
10 year bond	4.10	-0.08
United States		
3-month T Bill	5.21	0.00
2 year bond	4.75	0.10
10 year bond	4.40	0.09
Other (10 year yields)		
Germany	2.40	0.04
Japan	0.79	0.00
UK	4.07	0.05

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: A blockbuster non-farm payrolls report and other robust labour market indicators were the key catalysts investors paid attention to at the end of last week. The jobs report blew past all economist estimates, demonstrating that the US labour market remains very strong and adding to growing caution around when the rate cutting cycle may begin.

Bond yields moved sharply higher as a result and expectations for Fed rate cuts were wound back. Equities jumped as investors interpreted the report as a sign that the economy – and by extension, earnings growth – were in good shape. The US dollar initially jumped higher against major currencies following the payrolls report but retraced most of the gains by the end of the session.

Share Markets: Equity markets jumped as investors took the blockbuster jobs report to mean that the economy was doing well. The expectation that this would be positive for earnings growth outweighed the impact of higher discount rates (via higher interest rates) and drove equity prices up. The S&P ended up 1.1%, the Nasdaq gained 1.2%, and the Dow Jones finished 0.8% higher.

The ASX 200 closed 0.6% lower on Friday. Futures are pointing to a positive open today, taking the lead from the strong result in the US on Friday.

Interest Rates: Interest rates jumped and investors repriced expectations of rates cuts from the Fed following the impressive jobs report, which showed the labour market and economy remain strong. This adds to growing views that interest rates may need to remain higher for longer and the rate cutting cycle in 2024 may not be as deep as previously expected to contain the risk that inflation doesn't slow as quickly as the Fed wants to see.

The US 2-year treasury yield jumped 10 basis points, to 4.75%. The 10-year yield was up 9 basis points, to 4.40%.

Interest-rate markets have pushed back expectations on when the Fed may start cutting rates. The first cut is now fully priced by September, with an 88% chance attached to a July cut. Markets now view a June cut as a coin toss, with a 51% probability. This compares to before the payrolls report, when markets were attaching a 74% probability to a June cut and a July cut was fully priced.

For 2024 in total, markets are now pricing 63 basis points of cuts, compared with 74 basis points of cuts before payrolls.

Australian government bond yields (futures) broadly mimicked moves in the US, but to a lesser degree. The 3-year and 10-year bond yield (futures) both rose 6 basis points, to 3.71% and 4.17%, respectively.

Interest-rate markets are fully pricing a cut from the

RBA by November, with an 85% chance of a September cut. For 2024, markets are pricing 38 basis points of cuts.

Foreign Exchange: The US dollar jumped against a basket of major currencies on the release of the blockbuster non-farm payrolls report. The DXY Index rose from a low of 104.14 to a high of 104.69. It later retraced most of the post-payrolls gain and finished at 104.29.

The AUD/USD pair lost ground against a stronger USD. It dropped from a high of 0.6592 to a low of 0.6549 but regained some ground and was trading at 0.6573 at the time of writing.

The Japanese yen briefly hit its highest level in two weeks after Bank of Japan (BoJ) Governor Ueda flagged the chance of the BoJ hitting their inflation target would increase from the second half of 2024 and hinted at a possible rate hike. Japan's Prime Minister also added to talk from officials in recent days at possible intervention if the currency continued to devalue excessively. The USD/JPY pair moved to a low of 150.81 (i.e. the JPY strengthened) before bouncing to a high of 151.75. It was trading around 151.70 this morning.

Commodities: Oil continued its run higher at the end of last week but opened lower at the beginning of the new week. The West Texas Intermediate (WTI) futures contract ended the week around US$87 per barrel and opened this week at just over US$86 per barrel. Gold and thermal coal also gained, while iron ore, copper and coking coal were down.

Australia: In February, the trade in goods surplus narrowed to $7.3 billion. This followed a goods trade surplus of $10.1 billion in January – revised lower from an initial $11.0 billion estimate. The result was weaker than consensus expectations, which centred on a $10.5 billion outcome. Looking at the components, a 4.8% jump in imports, in combination with a 2.2% fall in exports were the drivers of the narrowing of the surplus. Exports to China were down 10.1% in the month and 1.4% over the year.

Eurozone: German factory orders printed a modest 0.2% gain in February, slightly lower than the 0.7% expected by consensus. However, the outcome followed a large plunge in January of 11.4%. Orders for consumer goods were 2.2% higher, followed by a 1.0% increase for intermediate goods. Capital goods orders were a drag, falling by 0.6% in the month. In annual terms, orders were down 10.6%.

Despite the stabilisation in the month, the German manufacturing sector remains under pressure, as evidenced by the March manufacturing PMI remaining deep in contractionary territory at 41.9. While this is a positive development, more data will be needed before it becomes clear that a bottom has been found and that a recovery can take hold.

Retail sales fell 0.5% in February, following a flat outcome in January. The result was slightly weaker than the 0.4% drop expected by consensus. Each of the main sub-categories were lower in the month, led by automotive fuel & speciality stores (-1.4%). Food, drink & tobacco (-0.4%) and non-food products (-0.2%) were also down.

United States: The labour market continues to show signs of strength and resilience as jobs growth surprised materially to the upside in March. Non-farm payrolls surged by 303k in the month. This was up from growth of 270k jobs in February and was well above market expectations. Specifically, consensus expectations centred on a gain of 214k jobs, while the result even beat the top of the range estimate of 290k. The surge was the strongest since May 2023 – also 303k. Adding to the robust report, jobs growth over the previous two months was revised higher by 22k.

Private sector jobs grew by 232k, up from 207k last month and well above the 170k consensus estimate. Health care & social assistance was the largest contributor, adding 72k jobs. Construction and leisure & hospitality also added to growth. Outside the private sector, the government added 71k jobs.

The unemployment rate fell to 3.8% in March, down from 3.9% in February. This was in line with expectations. The participation rate rose to 62.7%, from 62.5% – the first increase since November.

Average hourly earnings were also in line with expectations, at 0.3% in March. This was up from 0.2% in February, which was revised higher from an initial 0.1% reading. In annual terms, average hourly earnings grew at 4.1% – the slowest annual pace since mid-2021. This was in line with expectations but down from the 4.3% annual result in February. Annual average hourly earnings growth has been steadily trending lower from almost 6% in early 2022 but has yet to fall below 4% in this cycle – outside of the pandemic shock.

Consumer credit rose $14.1 billion in February, following a $17.7 billion gain in January. The outcome compared to a median estimate of $15.0 billion. The increase was driven by a rise in credit card balances. Revolving credit (e.g. credit cards) increased $11.3 billion, while non-revolving credit (e.g. car and student loans) rose $2.9 billion.

Richmond Fed President Thomas Barkin spoke about payrolls on Friday and noted that it was "quite a strong jobs report". He added that "unemployment is at 3.8%. It's been 26 months in a row with unemployment below 4%" and that "that's the first time that's happened since the late '60s. So, the job market is very strong."

Dallas Fed President Lorie Logan spoke on Friday and flagged that it was too soon to begin cutting rates. She spoke about the recent stronger-than-expected inflation outcomes and evidence that the economy was still growing robustly as reasons for caution around pulling back monetary policy tightening. She stated that "In light of these risks, I believe it's much too soon to think about cutting interest rates" and that she "will need to see more of the uncertainty resolved about which economic path we're on".

Separately, Michelle Bowman also spoke about upside inflation risks and that it was "still not yet" time to lower rates.

Today's key data and events:

AU Housing Finance Feb (11:30am)

Total exp 3.0% prev -3.9%

Owner-occupier exp 2.5% prev -4.6%

Investor exp 3.5% prev -2.6%

EZ Ger. Industrial Production Feb exp 0.5% prev 1.0% (4pm)

JP Current Account Feb exp ¥3,078.7b prev ¥438.2b (9:50am)

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.

Jarek Kowcza, Senior Economist
Ph: +61 481 476 436

Contact Listing

Chief Economist
Besa Deda
dedab@bankofmelbourne.com.au
+61 404 844 817

Senior Economist
Jarek Kowcza
jarek.kowcza@bankofmelbourne.com.au
+ 61 481 476 436

Senior Economist
Pat Bustamante
pat.bustamante@bankofmelbourne.com.au
+61 468 571 786

Economist
Jameson Coombs
jameson.coombs@bankofmelbourne.com.au
+61 401 102 789