Morning report

Monday, 11 March 2024

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,847	1.1%		Last		Overnight Chg		**Australia**		
US Dow Jones	38,723	-0.2%	10 yr bond	3.99		0.00		90 day BBSW	4.35	0.00
Japan Nikkei	39,689	0.2%	3 yr bond	3.60		0.00		2 year bond	3.72	-0.03
China Shanghai	3,193	0.6%	3 mth bill rate	4.23		-0.01		3 year bond	3.61	-0.03
German DAX	17,815	-0.2%	SPI 200	7,811.0		-47		3 year swap	3.82	-0.02
UK FTSE100	7,660	-0.4%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.97	-0.04
Commodities (close & change)			TWI	61.5	-	-	61.5	**United States**		
CRB Index	276.6	-2.5	AUD/USD	0.6619	0.6668	0.6613	0.6625	3-month T Bill	5.23	-0.01
Gold	2,178.95	19.0	AUD/JPY	98.00	98.16	97.28	97.46	2 year bond	4.47	-0.03
Copper	8,500.28	-61.0	AUD/GBP	0.5167	0.5183	0.5146	0.5152	10 year bond	4.07	-0.01
Oil (WTI futures)	78.01	-0.9	AUD/NZD	1.0721	1.0747	1.0702	1.0715	**Other (10 year yields)**		
Coal (thermal)	136.50	-1.1	AUD/EUR	0.6046	0.6082	0.6042	0.6054	Germany	2.27	-0.04
Coal (coking)	300.00	0.0	AUD/CNH	4.7654	4.7914	4.7622	4.7715	Japan	0.74	0.00
Iron Ore	114.25	-0.9	USD Index	102.82	102.90	102.36	102.74	UK	3.98	-0.02

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 fixated on the US non-farm payrolls report on Friday. Offsetting surprises meant markets didn't finish far from where they opened as the data broadly supported expectations that the Fed is nearing the start of its rate cut cycle. Treasury yields were modestly lower, equities stumbled, while the US dollar retreated.

Share Markets: US equities finished the week on a negative note as investors grow cautious that the recent rally has left valuations over-extended. The S&P 500 fell 0.7% on Friday to finish the week 0.3% lower. The Down Jones and the NASDAQ closed down 0.2% and 1.2%, respectively and capped off the week down 0.9% and 1.2%.

The ASX 200 jumped 1.1% on Friday to reach a fresh all-time high. However, futures are pointing to some weakness on the open this morning following softer conditions in the US market.

Interest Rates: Treasury markets were volatile on Friday as traders digested the non-farm payrolls report. Yields finished slightly lower after largely retracing a sharp slide immediately following the payrolls report. The 2-year yield traded between a high of 4.55% and a low of 4.40%, before closing down 3 basis points at 4.47% - the lowest level in four weeks. The 10-year yield ranged between a high of 4.12% and a low of 4.03% before closing at a 5-week low of 4.07%.

Interest rate markets have almost fully priced in a rate cut from the Fed in June and just shy of four rate cuts by the end of 2024.

Aussie bond futures were flat. The 3-and-10-year (futures) yields finished at 3.60% and 3.99%, respectively. The 10-year physical bond closed below 4% on Friday for the first time since in five weeks.

Foreign Exchange: The US dollar dropped to its lowest level since mid-January, before retracing to close only slightly lower. The DXY traded from a high of 102.90 to a low of 102.36 before closing around 102.74.

The Aussie dollar was similarly volatile on the back of swings in the US dollar but managed to hold onto gains above the 0.66 handle. The AUD/USD ranged between a low of 0.6613 and a near 8-week high of 0.6668 and is currently trading around 0.6625.

Commodities: Gold continued its surge higher setting another record high of US$2,195 an ounce. Oil held within its recent range while copper, iron ore and thermal coal slipped.

Australia: The share of multiple job holders remained elevated at 6.7% in the December quarter. This is despite declining hours of work and slowing employment growth over the same period.

China: Annual growth in the consumer price index (CPI) rose in February for the first time in five months, underpinned by solid Lunar New Year demand. The CPI lifted 0.7% over the year to

February, up from a 0.8% fall in January.

However, producer price index (PPI) data suggests that the welcome bounce in inflation is likely to be short-lived. The PPI fell 2.7% over the year to February, a step down from the 2.5% annual fall in January. This suggests that that upstream inflation pressures remain weak.

Eurozone: German industrial production surprised to the upside in January, rising 1.0% in the month. This followed a 2.0% slide in January and topped expectations for a more muted 0.6% gain. The monthly increase in production was the first in nine months. Despite the bounce, the overall level of production remains close to the lowest level since 2020 as Germany's manufacturing sector struggles to shake-off a prolonged downturn.

Euro-area GDP was finalised flat in the December quarter, unchanged from the preliminary reading.

United States: The February non-farm payrolls report had something in it for everyone. Employment growth remained solid, with non-farm payrolls gaining 275k in February. The upside surprise was contrasted with meaningful downward revisions to the growth over the past two months.

The unemployment rate ticked up from 3.7% to 3.9% - its highest level since January 2022. Average hourly earnings rose a weaker-than-expected 0.1% in February following a downwardly revised 0.5% gain in January. Annual growth met expectations, coming in at 4.3%, down from 4.4% in January.

Despite still robust job creation, the labour market is gradually softening and taking some of the heat out of wage pressures. This will help provide greater confidence that a wage-led reacceleration in inflation is an unlikely scenario, though the Fed will remain cautious.

Today's key data and events:

JN GDP Q4 Final prev -0.1% (10:50am)

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.

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