Morning report

Bank of Melbourne

Friday, 22 March 2024

Equities (close & % change)		
S&P/ASX 200	7,782	1.1%
US Dow Jones	39,781	0.7%
Japan Nikkei	40,816	2.0%
China Shanghai	3,226	-0.1%
German DAX	18,179	0.9%
UK FTSE100	7,883	1.9%
Commodities (close & change)		
CRB Index	286.6	1.0
Gold	2,181.33	-5.1
Copper	8,858.84	-51.2
Oil (WTI futures)	80.79	-0.5
Coal (thermal)	126.95	-1.0
Coal (coking)	276.00	-1.5
Iron Ore	108.50	-1.3

Sydney Futures Exchange (last & change)				
	Last		**Overnight Chg**	
10 yr bond	4.11		0.01	
3 yr bond	3.68		0.02	
3 mth bill rate	4.28		0.01	
SPI 200	7,825.0		-14	
FX Last 24 hrs	Open	High	Low	Current
TWI	61.3	-	-	61.3
AUD/USD	0.6586	0.6635	0.6561	0.6570
AUD/JPY	99.62	100.17	99.29	99.61
AUD/GBP	0.5151	0.5193	0.5147	0.5191
AUD/NZD	1.0831	1.0878	1.0827	1.0869
AUD/EUR	0.6031	0.6069	0.6024	0.6050
AUD/CNH	4.7499	4.7843	4.7385	4.7447
USD Index	103.40	104.05	103.17	104.01

Interest rates (close & change)		
Australia		
90 day BBSW	4.35	0.00
2 year bond	3.85	0.05
3 year bond	3.72	0.06
3 year swap	3.93	0.00
10 year bond	4.09	0.04
United States		
3-month T Bill	5.22	-0.01
2 year bond	4.64	0.03
10 year bond	4.27	-0.01
Other (10 year yields)		
Germany	2.41	-0.03
Japan	0.74	0.00
UK	4.00	-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: The Bank of England (BoE) was the last major central bank making its policy decision this week. It left rates on hold, as expected, but the remaining hawks on the committee voted to stay put rather than hike, signalling a move to neutral and towards eventual cuts. Norway's central bank – the Norges Bank – maintained the status quo and left rates on hold. While the Swiss National Bank (SNB) surprised markets and most economists by going off script and cutting rates – becoming the first G-10 central bank to do so in this cycle.

Stock markets continued their incredible rally, with the S&P 500 rising further to hit a 20th record high this year so far. Bond yields were subdued after a big week, while the US dollar gained against a basket of major currencies.

Share Markets: Equity markets continued to rally on hopes that the beginning of the interest rate cutting cycle in within reach and that soft landings can be achieved, supporting corporate earnings. The S&P 500 rose 0.3% to a fresh record high, the Nasdaq was 0.2% higher and the Dow Jones jumped 0.7%.

The ASX 200 rose 1.1% yesterday. All but two of the 11 sectors recorded gains, with six rising by over 1%. Financials and consumer discretionary were the strongest performers, both up 1.5% or more. Utilities and heath care were the only sectors to fall. Futures are pointing to a slight fall on the open, against the grain of the positive sentiment overnight in global markets.

Interest Rates: Bond yield movements were somewhat subdued after a big week of central bank decisions. The US 2-year treasury yield ended 3 basis points higher, at 4.64% – partly unwinding some of the fall in yields over recent days. In contrast, the 10-year treasury yield continued to trend lower, falling 1 basis points to 4.27%.

Interest-rate markets are pricing 80 basis points of cuts from the Fed in 2024, with the first cut fully priced for July. The probability of a June cut has risen to 77%, after falling to 66% ahead of the Fed meeting.

Movements in Australian government bond yields were also subdued. The 3-year (futures) yield rose 2 basis points, to 3.68%. The 10-year (futures) yield was 1 basis points higher, at 4.11%. Interest-rate markets are no longer pricing the first cut from the RBA to be in September following the stronger-than-expected labour market data yesterday. Markets are pricing the first cut to begin in November. A September cut has a 90% probability attached to it, down from around 125% before the release of the labour market data. Around 46 basis points of cuts are priced for 2024.

Foreign Exchange: The US dollar strengthened against major currencies overnight. The USD Index rose from a low of a 103.17 to a high of 104.05 and was trading near that level – at 104.01 – at the time of writing.

The AUD/USD pair lost some ground in line with a stronger USD. It traded between a high of 0.6635 and a low of 0.6561 and was at 0.6570 at the time of writing.

Commodities: Copper, gold, coal and iron ore were all lower overnight. Oil also slipped but remained above US$80 per barrel.

Australia: The Labour Force survey delivered another surprising result, this time to the stronger side. February's figures showed a stronger-than-expected surge in employment, up 116.5k (0.8%), and aggregate hours worked (+2.8%). The number of people unemployed declined (-52.0k), resulting in a sharp fall in the unemployment rate, from 4.1% to 3.7%. And, following the bumper number for jobs growth, the employment-to-population ratio bounced back to 64.2%, broadly in line with the October outcome.

The outcome marks a continuation of the recent run of volatile readings as the Australian Bureau of Statistics (ABS) grapples with shifting seasonal patterns. This is making it hard to completely remove the influence of seasonal dynamics from seasonally adjusted estimates.

While the volatility makes it hard to obtain an accurate gauge, looking at recent movements since the middle of last year, coupled with other economic indicators including the soft national accounts outcome for the December quarter 2023 and falling job ads, we continue to hold the view that the labour market is in transition with a softening still underway.

Consistent with this view, growth in employment is continuing to slow gradually, from a three-month average pace of 42k/month in November to 23k/month in February. And, employers are still opting to reduce the number of average hours worked, down -1.9%yr on a three-month average basis. These indicators point to a softening in labour demand.

Going forward, demand for labour is moderating and is not expected to keep up with growth in labour supply. As such, we expect to see the unemployment rate drift higher over the course of this year.

A record amount of net overseas migration (NOM) drove a surge in the population of 659.8k people in the 12 months to September 2023. The result reflected record net overseas migration of 548.8k in addition to a natural increase of 111.0k.

The NOM estimates were made up of 765.9k arrivals and 217.1k departures. The natural increase estimates reflected 295.0k births and 183.9k deaths.

Eurozone: The manufacturing downturn deepened, led by weakness in Germany and France. The S&P Global manufacturing purchasing managers index (PMI) slid further into contractionary territory in March. The index fell to 45.7 in the month, down from 46.5 in February and against expectations for a small rise to 47.0. Activity in the sector has been contracting since July 2022 and the index has begun to fall again in the most recent two months.

In contrast, activity in the services sector is expanding and surprised to the upside. The services PMI printed at 51.1 in March, up from 50.2 in February and above expectations for a 50.5 reading. This was the second consecutive month of expansion and the highest reading since June 2023.

New Zealand: The economy entered a double-dip recession in the back half of 2023, confirmed by Q4 GDP data. GDP fell 0.1% in Q4 of 2023, following on from a 0.3% drop in Q3 of 2023. The outcome was a surprise to economists, as consensus expectations centred on a 0.1% expansion in the quarter.

In annual terms, GDP shrunk 0.3% in 2023, also weaker than expectations of flat growth for the year. This followed a 0.6% contraction over the 12 months to Q3. Indeed, growth has been negative for four of the past five quarters, demonstrating the challenges that the economy is under as the Reserve Bank of New Zealand seeks to get on top of elevated inflationary pressures.

At an industry level, goods-producing industries contracted 0.1% in the quarter. On the other hand, services industries and primary industries both expanded 0.3% in quarterly terms.

Understandably, industries more exposed to discretionary spending reported weak results, as household income continue to be stretched. Wholesale trade (-1.8%), retail trade & accommodation (-0.9%) and arts & rec (-0.8%) all contracted in the quarter.

Switzerland: The Swiss National Bank (SNB) surprised markets and most economists but cutting its policy rate by 25 basis points, to 1.50%. This was the first cut in nine year. In doing so, it became the first G10 central bank to begin cutting rates in this cycle. Chairman Thomas Jordan stated that "the easing of monetary policy has been made possible because the fight against inflation over the past two and a half years has been effective".

United Kingdom: The Bank of England (BoE) left rates on hold at 5.25%, as was widely expected. However, in an important shift towards a more neutral stance, and eventually towards an easing, there were no members still voting for a hike. This meeting, eight of the nine committee members voted to remain on hold while the remaining member voted for a cut. That contrasts with last meeting, where two voted for a hike, one for a cut, and the remainder to hold.

BoE Governor Bailey noted the BoE was "not yet at the point where it can cut rates" but things were viewed as moving as expected. It was noted that the BoE would "keep under review" its current stance of tight policy. The BoE also acknowledged that its current stance of policy is restrictive.

Governor Bailey noted that they still have a way to go and flagged services inflation as being particularly more persistent. He added that they "don't need to see it come all the way down to a sort of sustainable level consistent with target, but we do need to see further progress".

Manufacturing sector activity surprised to the upside, although remained in contractionary territory – only just – in March. The S&P Global manufacturing PMI came in at 49.9 in the month, just below the 50 mark that splits expansion from contraction. This was higher than consensus expectations for 47.8 and up from the 47.5 reading in February. Activity in the manufacturing sector has been gradually recovering since hitting a low of 43.0 in August 2023. However, the sector has remained in contraction since August 2022.

Activity in the services sector fell slightly in March but remained around levels seen in the past four months. The services PMI slipped to 53.4 in March, down from 53.8 in February and below consensus expectations for an unchanged reading.

The budget fell back into a deficit position in February, following a brief surplus in January. Public sector net borrowing was £7.5 billion in the month. This was larger than the £6.4 billion deficit expected by consensus and followed a surplus of £17.0 billion in January.

The 2023-24 deficit for the first 11 months of the financial year stands at £106.8 billion, not far from the £114.1 billion forecast for the full 2023-24 financial year from the Office for Budget Responsibility on a few weeks ago, demonstrating the pressures the budget is under.

United States: Activity across both the manufacturing and services sectors remained in expansionary territory – in contrast with other major developed regions. The manufacturing PMI rose to 52.5 in March, from 52.2 in February. This was against expectations for a fall to 51.8.

Activity in the services sector was also expansionary but slowed compared to last month. The services PMI printed at 51.7, compared to 52.3 last month. This was slightly below expectations of 52.0.

Existing home sales jumped 9.5% in February – the strongest monthly bounce in a year. This followed a 3.1% increase in the previous month and was above expectations for a -1.3% contraction. The number of listings also jumped, indicating that sellers are beginning to meet the market as elevated interest rates continue to negatively impact affordability. Median selling prices rose to $384.5k. Despite elevated interest rates, housing demand continues to be supported by strong population and employment growth.

The Philadelphia Fed business outlook index remained in expansionary territory, despite expectations that it would fall into contraction. The March reading was 3.2, down from a February reading of 5.2 but above the -2.5 expected by consensus.

The Conference Board leading index rose to 0.1% in February – the first time the index has moved into positive territory for two years. The outcome compared to a -0.4% reading in January and was above expectations of -0.1%.

Today's key data and events:

AU RBA Financial Stability Review (11:30am)

EZ Ger IFO Business Climate Survey Mar exp 85.9 prev 85.5 (8pm)

JP CPI Feb y/y exp 2.9% prev 2.2% (10:30am)

NZ Trade Balance Feb prev -$976m (8:45am)

UK GfK Consumer Sentiment Mar exp -19 prev -21 (11:01am)

UK Retail Sales Feb exp -0.4% prev 3.4% (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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The Detail

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