

Morning Report

Monday, 5 February 2024

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,699	1.5%			Last	Overnight Chg		Australia		
US Dow Jones	38,654	0.3%	10 yr bond	4.10		0.11	90 day BBSW	4.32	0.00	
Japan Nikkei	36,158	0.4%	3 yr bond	3.63		0.11	2 year bond	3.66	-0.02	
China Shanghai	2,862	-1.5%	3 mth bill rate	4.30		0.02	3 year bond	3.55	-0.02	
German DAX	16,918	0.4%	SPI 200	7,608.0		-54	3 year swap	3.83	0.09	
UK FTSE100	7,616	-0.1%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.98	-0.03
Commodities (close & change)			TWI	61.1	-	-	61.1	United States		
CRB Index	267.7	-2.0	AUD/USD	0.6573	0.6610	0.6502	0.6515	3-month T Bill	5.21	0.00
Gold	2,039.76	-15.2	AUD/JPY	96.19	96.93	96.17	96.62	2 year bond	4.36	0.16
Copper	8,397.84	-53.2	AUD/GBP	0.5157	0.5180	0.5148	0.5155	10 year bond	4.02	0.14
Oil (WTI futures)	72.28	-1.5	AUD/NZD	1.0708	1.0756	1.0695	1.0732	Other (10 year yields)		
Coal (thermal)	119.90	2.9	AUD/EUR	0.6047	0.6074	0.6032	0.6040	Germany	2.24	0.09
Coal (coking)	315.50	-0.5	AUD/CNH	4.7249	4.7530	4.6930	4.7012	Japan	0.67	-0.03
Iron Ore	126.90	0.6	USD Index	103.06	104.04	102.90	103.96	UK	3.92	0.17

Data as at 9:00am AEDT. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: A strong non-farm payrolls report pushed US bond yields sharply higher together with the US dollar.

Share Markets: The US share market bellwether S&P 500 hit a new record high in the wake of better-than-expected non-farm payrolls data. The S&P 500 rose 1.1%. The Dow and Nasdaq lifted 0.4% and 1.7%, respectively.

Interest Rates: US bond yields jumped on Friday after the stronger-than-expected non-farm payrolls data led markets to slash expectations for a rate cut in March. The data gives some weight to the US Federal Reserve's insistence that it may be too soon to cut rates. Expectations of a cut fell to about 20%, compared with nearly 40% cent before the payrolls report. Traders also sliced expectations for a May rate cut from the Fed. The US 2-year yield rose 16 basis points and the 10-year yield lifted 14 basis points.

Foreign Exchange: The US dollar appreciated sharply after non-farm payrolls posted a solid gain and markets lengthened the odds of a near-term rate cut. The AUD/USD fell from a Friday night high of 0.6610 to 0.6502 in the wake of this data, which is the lowest rate since late November 2023. The AUD/USD is likely to exhibit more volatility ahead of the Reserve Bank policy meeting tomorrow.

Commodities: The West Texas Intermediate price of oil ended lower on Friday, despite an escalation in

Middle-East tensions. On Friday, the US struck Iranian proxies in Iraq and Syria in retaliation for a drone attack a week ago that killed three American soldiers. The Houthis vowed to respond US and UK bombing on Saturday of dozens of targets linked to the Yemen-based rebel group as part of an effort to end attacks on Red Sea shipping.

Australia: The total value of housing finance approvals posted a surprise 4.1% fall in December, reversing about a third of the strong surge seen over the four months. Weakness in the month centred on lending to owner occupiers. The Reserve Bank's November rate hike likely had some impact in the month. While we should always be careful when interpreting housing data over the Dec-Jan period, the update adds to evidence from the latest figures on prices and turnover that housing market momentum has slowed and that affordability pressures are starting to bite. That said, the total value of housing finance approvals is still up solidly over the year (+11.7%).

China: China's Securities Regulatory Commission (CSRC) plans to stabilise markets after China's share market sank to a 5-year low on Friday. No steps have been detailed but the regulator pledged to draw in more longer-term funds.

United States: The US economy added 353,000 jobs in January, almost twice as many as forecast by consensus (180,000). The out-sized rise was likely

impacted by seasonality, but the outcome was still strong accounting for that. Recent data was also revised up. Revised figures in the report indicated that the US had added 333,000 jobs in December, up from a first estimate of 216,000. The figure for November was also upgraded, by a more moderate 9,000 to 182,000.

The US unemployment rate stayed unchanged at 3.7% in January. This was lower than consensus forecasts, which centred on a result of 3.8%.

Michelle Bowman, a governor at the Fed, confirmed that the hot US labour market was now one of the main “upside” risks to officials’ hopes that inflation would soon hit their 2% goal. The tightness in the jobs market “could lead to persistently high core services inflation”, Bowman said, adding that “some businesses continue to report above-average wage increases to compensate for inflation”.

Separately, the Federal Reserve’s Austan Goolsbee said he wants to see more evidence the Fed is on track toward its 2% inflation target before lowering rates.

Today’s key data and events:

AU Melb Inst Inflation Gauge Jan y/y prev 5.2%
(11:30am)

AU Trade Balance Dec prev \$10.5bn (11:30am)

AU ANZ Job Ads Jan prev 0.1% (11:30am)

CH Caixin PMI Composite Jan prev 52.6 (12:45pm)

CH Caixin PMI Services Jan exp 53.0 prev 52.9 (12:45pm)

EZ PPI Dec exp -0.8% prev -0.3% (9pm)

US ISM Services Index Jan exp 52.0 prev 50.5 (2am)

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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