Morning Report

bankSA

Friday, 12 April 2024

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,814	-0.4%		Last		Overnight Chg		**Australia**		
US Dow Jones	38,459	0.0%	10 yr bond	4.31		0.05		90 day BBSW	4.35	0.01
Japan Nikkei	39,443	-0.4%	3 yr bond	3.84		0.03		2 year bond	3.92	0.03
China Shanghai	3,181	0.2%	3 mth bill rate	4.33		0.01		3 year bond	3.87	0.03
German DAX	17,954	-0.8%	SPI 200	7,820.0		-29		3 year swap	4.06	-0.01
UK FTSE100	7,924	-0.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.30	0.04
Commodities (close & change)			TWI	62.4	-	-	62.4	**United States**		
CRB Index	295.5	-2.3	AUD/USD	0.6513	0.6553	0.6502	0.6537	3-month T Bill	5.24	-0.01
Gold	2,372.52	38.5	AUD/JPY	99.65	100.24	99.40	100.16	2 year bond	4.96	-0.01
Copper	9,249.24	-45.0	AUD/GBP	0.5195	0.5212	0.5188	0.5207	10 year bond	4.59	0.04
Oil (WTI futures)	85.56	0.5	AUD/NZD	1.0898	1.0910	1.0886	1.0900	**Other (10 year yields)**		
Coal (thermal)	132.00	2.0	AUD/EUR	0.6062	0.6100	0.6055	0.6093	Germany	2.46	0.03
Coal (coking)	242.00	7.0	AUD/CNH	4.7280	4.7523	4.7230	4.7429	Japan	0.87	0.06
Iron Ore	107.95	-0.3	USD Index	105.18	105.53	105.03	105.27	UK	4.20	0.05

Data as at 8:30am AEDT. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: Market participants took a breather last night to consider recent US inflation data as market movements were mild compared to a day earlier. The European Central Bank (ECB) left rates on hold – as widely expected – and continued to suggest that the June meeting would be the likely meeting for rate cuts to begin if data evolved as expected. Several Fed speakers talked of patience around setting policy in the wake of stronger-than-expected inflation data.

Bond yields ended mixed but movements were muted compared to yesterday, the US dollar extended its gains against major currencies, and equities rebounded following yesterday's losses.

Share Markets: Equity markets recovered, led by technology companies. Investors are looking to the upcoming earnings season for information on whether strong earnings growth is evident to justify lofty valuations. The S&P 500 ended the session 0.7% higher and the tech-heavy Nasdaq gained 1.7%. The Dow Jones bucked the trend and was flat.

Elsewhere, European equities underperformed and declined on the day. The Euro Stoxx 50 lost 0.7%, the FTSE 100 was 0.5% weaker and the German DAX dropped 0.8%.

The ASX 200 lost 0.4% yesterday. Futures are pointing to a weak open today, despite the rebound in US markets.

Interest Rates: Movements in bond yields were muted compared to the massive moves a day earlier. The 2-year bond yield ended slightly lower – down 1 basis points to 4.96%. Longer-term bonds extended their losses (i.e. prices fell and yields rose) as the 10-year treasury yield closed 4 basis points higher, at 4.59% – highest since November 2023.

Market pricing for future moves from the Fed steadied overnight. Interest-rate markets are pricing only a 27% of a June move and a 60% chance of a move in July. The first cut isn't fully priced until November but a move by September is sitting at a 99% probability. For 2024, the market expects around 42 basis points of cuts – slightly less than two 25-basis-point moves.

Movements in longer-term Australian yields mimicked moves in the US while shorter-term yields went the other way. The 3-year government bond yield (futures) rose 3 basis points, to 3.84%. The 10-year (futures) yield was 5 basis points higher, at 4.31%. Interest-rate markets have pared back pricing for the RBA compared to recent days. Markets now only expect one cut from the RBA in 2024 – coming in December. A September move has a 40% probability and an 86% chance is attached to a cut in November.

Foreign Exchange: The US dollar extended its gains against major currencies and remained above the 105 handle. The USD Index rose from a low of 105.03 to a high 105.53. It was trading at 105.27 at the time of writing. The Aussie ended up despite a stronger US dollar. The pair rose from a low of just above 0.6500 – at 0.6502 – to a high of 0.6553. It later lost some ground and was trading at 0.6537 at the time of writing.

Commodities: Gold continued to rise and closed at another fresh record high. Oil was also stronger, as were thermal and coking coal. Irone ore slipped and copper was also down.

Australia: Consumer inflation expectations rose to 4.6% in April. This followed a 4.3% outcome in March and was the highest outcome since November 2023. While moving higher in the latest month, consumer inflation expectations have been trending lower since peaking at 6.7% in June 2022.

China: Consumer inflation slowed more than expected in March while producer prices continued to go backwards. The consumer price index (CPI) rose just 0.1% in annual terms in the 12 months to March. This followed an annual increase of 0.7% in February and was weaker than the 0.4% outcome expected be consensus.

Separately, producer prices, as measured by the producer price index (PPI), fell 2.8% in annual terms in March and extended their run of negative prints to 18 months. The outcome was in line with consensus expectations and followed an annual fall of 2.7% in February.

The weaker-than-expected result for the CPI suggests that domestic demand pressures are not as significant as economists had hoped. Additionally, the data suggests that the recent move higher in price pressures may have been temporarily impacted by stronger demand from the Chinese New Year holiday period.

Food prices continued to weigh on inflation and were down 2.7% over the year to March. This compares with a smaller 0.9% fall in the 12 months to February. Excluding food and energy prices, the core measure of inflation rose 0.6% in annual terms, down from a 1.2% annual increase in February.

Eurozone: The European Central Bank (ECB) met overnight and maintained its policy rate settings for the fifth consecutive meeting – as widely expected. It left the deposit rate at 4.00% and the main refinancing rate at 4.50%.

However, markets were watching closely for any comments around the likelihood of easing and whether hints would be provided that rates could be cut in June.

The ECB statement maintained their commitment to remain “data dependent” and take a “meeting-by-meeting” approach to setting monetary policy. However, they also noted that “it would be appropriate to reduce the current level of monetary policy restriction” if the Governing Council were to become more confident that inflation was “converging to the target in a sustained manner”. The ECB will focus on their “updated assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission”. Additionally, a sentence around rates needing to remain at their current level “for a sufficiently long duration” was deleted.

These changes were viewed as suggesting that the ECB would likely cut at its June meeting if inflation continued to ease and came in line with their updated forecasts, which will be published in June.

ECB President Christine Lagarde noted in the press conference that the economy remained week and that surveys are pointing to a gradual recovery. Price pressures were gradually declining, as was the tightness of the labour market. She signalled the prospect of a June cut and noted that the ECB didn’t have to follow the US Fed – in a nod to changing expectations around the timing and degree of Fed cuts after stronger-than-expected inflation prints.

She noted that more information will be available in April and that “a lot more data and a lot more information” will be available by June – further adding to views that June is the likely date for the beginning of the easing cycle. She also added that “a few” Governing Council members were already sufficiently convinced on inflation.

United States: After a hotter-than-expected inflation print for March yesterday, producer prices came in slightly weaker than expected in March. This helped to soothe some concerns among markets participants who are reassessing their views around the beginning and degree of the rate cutting cycle from the US Fed.

The producer price index (PPI) rose 0.2% in March, to be 2.1% higher in annual terms. This was slightly weaker than the 0.3% monthly gain and 2.2% annual rise expected by consensus. The result represented a slowing in monthly terms from the 0.6% February reading but was higher in annual terms – previously 1.6%.

While the headline measure surprised slightly to the downside, the core measure – excluding volatile food and energy prices – was in line with expectations. The core PPI rose 0.2% in March and 2.4% in annual terms. This compares with a 0.3%

monthly gain in February and an annual 2.1% rise.

Several Fed speakers spoke overnight and emphasised that the central bank could remain cautious and patient around cutting rates as economic data continues to be resilient and risks of sticky inflation pressures are evident. They continue to note that rate cuts will be forthcoming but imply they may not be as early or as deep as previously expected.

John Williams noted that "there's no clear need to adjust monetary policy in the very near term". Susan Collins noted that “recent data suggest it may take more time than I had previously thought to gain greater confidence in inflation’s downward trajectory, before beginning to ease policy”. She also added that this “implies that less easing of policy this year than previously thought may be warranted”. While Thomas Barkin also added that the latest set of data "did not increase [his] confidence" around inflation.

Today’s key data and events:

NZ BusinessNZ Mfg PMI Mar prev 49.3 (8:30am)

JP Industrial Production Feb Final exp -0.1% (2:30pm)

US Import Price Index Mar exp 0.3% prev 0.3% (10:30pm)

US Export Price Index Mar exp 0.3% prev 0.8% (10:30pm)

US UoM Consumer Sentiment Apr exp 79.0 prev 79.4 (12am)

CH Trade Balance Mar prev US$39.71 (11/4-15/4)

CH Exports Mar y/y exp -1.9% prev 5.6% (11/4-15/4)

CH Imports Mar y/y exp 1.0% prev -8.2% (11/4-15/4)

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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