

Morning Report

Monday, 18 March 2024

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)			
S&P/ASX 200	7,670	-0.6%			Last	Overnight Chg		Australia			
US Dow Jones	38,715	-0.5%	10 yr bond		4.19	0.03		90 day BBSW	4.34	0.00	
Japan Nikkei	38,708	-0.3%	3 yr bond		3.76	0.05		2 year bond	3.91	0.04	
China Shanghai	3,202	0.5%	3 mth bill rate		4.28	0.02		3 year bond	3.79	0.05	
German DAX	17,937	0.0%	SPI 200		7,659.0	-13		3 year swap	3.97	0.02	
UK FTSE100	7,727	-0.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.17	0.04	
Commodities (close & change)			TWI		61.6	-	-	61.6	United States		
CRB Index	284.6	1.7	AUD/USD		0.6581	0.6584	0.6552	0.6561	3-month T Bill	5.22	-0.02
Gold	2,155.90	-6.3	AUD/JPY		97.61	97.97	97.27	97.76	2 year bond	4.73	0.03
Copper	8,970.25	184.3	AUD/GBP		0.5160	0.5163	0.5143	0.5153	10 year bond	4.31	0.02
Oil (WTI futures)	81.19	0.1	AUD/NZD		1.0735	1.0788	1.0725	1.0774	Other (10 year yields)		
Coal (thermal)	131.25	0.8	AUD/EUR		0.6045	0.6049	0.6021	0.6025	Germany	2.44	0.02
Coal (coking)	284.00	-4.0	AUD/CNH		4.7382	4.7416	4.7210	4.7266	Japan	0.79	0.01
Iron Ore	99.55	-0.4	USD Index		103.37	103.49	103.30	103.45	UK	4.10	0.01

Data as at 9:15am AEDT. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: Bond yields continued to rise towards the end of last week as investors continue to contemplate the prospects that Fed interest rate cuts may not come as quickly as previously expected. Investors will be closely watching comments from the Fed after their meeting this week – in addition to other central banks – for any potential changes in rhetoric and what that might mean for the interest rate profile.

Equity markets sold off amid continued volatility and increased trading volume. The USD ended higher against major currencies after trading in a narrow range.

Share Markets: Equity markets closed lower on Friday to finish off a volatile week as the expiry of a range of derivatives contracts at the end of the week added to volume and volatility. The S&P 500 closed down 0.6%, the Nasdaq lost 1.0% and the Dow Jones was 0.5% lower.

The ASX 200 fell 0.6% on Friday. Futures are pointing to a weak open today.

Interest Rates: Interest rates were higher on Friday, extending upward moves over each session last week as consumer and producer inflation data, in addition to other data releases, painted a picture of a more challenging inflationary environment. This added to the risk that interest rates may need to stay higher for longer than the market was previously expecting and that cuts may come later.

The US 2-year treasury yield rose 3 basis points, to 4.73%. The 10-year yield was 2 basis points higher, to 4.31%. Interest-rate markets were pricing roughly a 60% chance of a cut at the Fed's June meeting at the end of last week. This was down from over 85% at the beginning of last week. Around 84 basis points of cuts are priced to the end of 2024.

Australian interest rates largely mimicked moves in the US. The 3-year (futures) yield rose 5 basis points, to 3.76%. The 10-year (futures) yield was 3 basis points higher, at 4.19%. Interest rate markets are pricing around a 75% chance of a cut from the RBA at the August meeting. A cut at the September meeting is fully priced. Over 2024, markets expect around 38 basis points of cuts.

Foreign Exchange: The US dollar was slightly higher against a basket of major currencies after trading in a narrow range. The DXY Index ranged between a low of 103.30 and a high of 103.49. It was trading at 103.45 at the time of writing.

The AUD/USD lost ground against a stronger USD. The pair slipped from a high of 0.6584 to a low of 0.6552 and was trading at 0.6561 at the time of writing.

Commodities: Iron ore continued its recent sell off and fell below US\$100 per tonne for the first time since August 2023. Gold and coking coal were also lower. Copper and thermal coal were up, while oil

ended broadly unchanged.

Australia: There were no major economic data releases on Friday.

New Zealand: The manufacturing PMI rose in February but remained in contractionary territory. The manufacturing PMI came in at 49.3 in the month, up from 47.5 in January. The measure has been trending broadly higher since late 2023. Despite this, it has remained in contractionary territory for 12 months.

United States: Consumer sentiment surprised to the downside, falling in March against expectations for an increase. The University of Michigan consumer sentiment measure dropped to 76.5 in March, from 76.9 in February. This compared to expectations for an increase to 77.1. Inflation expectations were changed from the February reading, at 3.0% for 1-year ahead and 2.9% for 5-10 years ahead.

Import prices, excluding the volatile fuel component, surprised to the upside, adding to emerging risks over the week of sticky price pressures. Import prices were 0.3% higher in February, down from 0.8% in January. This was in line with expectations. However, the ex. petroleum measure, which removes volatile fuel prices, rose 0.2% in the month. This was against expectations of a fall of 0.2% and followed an increase of 0.6% in January.

Export prices rose 0.8% in February – broadly unchanged from growth of 0.9% in January. This was above expectations of 0.4%.

Industrial production rose 0.1% in February, returning to growth after a 0.5% fall in January. This was above expectations of a flat result.

The New York empire manufacturing survey surprised significantly to the downside in March. The survey printed at -20.9 in the month. This was well below the previous reading of -2.4 and expectations of a -7.0 outcome.

Today's key data and events:

CH Industrial Production Feb (1pm)

EZ Trade Balance Jan prev 13.0 (9pm)

JP Machinery Orders Jan prev 2.7% (10:50am)

NZ Westpac-MM Consumer Confidence Q1 prev 88.9

UK Rightmove House Prices Mar prev 0.9% (11:01am)

US NAHB Housing Market Index Mar prev 48 (1am)

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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