Morning Report

Thursday, 25 January 2024

Equities (close & % change)		
S&P/ASX 200	7,519	0.1%
US Dow Jones	37,807	-0.3%
Japan Nikkei	36,226	-0.8%
China Shanghai	2,957	1.8%
German DAX	16,890	1.6%
UK FTSE100	7,528	0.6%
Commodities (close & change)		
CRB Index	271.0	2.8
Gold	2,012.37	-16.9
Copper	8,506.99	159.0
Oil (WTI futures)	75.35	1.0
Coal (thermal)	118.60	-1.4
Coal (coking)	332.00	-3.0
Iron Ore	135.95	0.8

Sydney Futures Exchange (last & change)				
	Last		Overnight Chg	
10 yr bond	4.29		0.04	
3 yr bond	3.80		0.02	
3 mth bill rate	4.32		0.01	
SPI 200	7,502.0		14	
FX Last 24 hrs	Open	High	Low	Current
TWI	61.6	-	-	61.6
AUD/USD	0.6578	0.6621	0.6566	0.6577
AUD/JPY	97.58	97.65	96.92	97.04
AUD/GBP	0.5185	0.5193	0.5169	0.5172
AUD/NZD	1.0805	1.0809	1.0753	1.0755
AUD/EUR	0.6062	0.6068	0.6042	0.6044
AUD/CNH	4.7133	4.7307	4.7098	4.7099
USD Index	103.58	103.59	102.77	103.29

Interest rates (close & change)		
Australia		
90 day BBSW	4.35	0.01
2 year bond	3.90	0.01
3 year bond	3.81	0.02
3 year swap	3.99	0.02
10 year bond	4.23	0.04
United States		
3-month T Bill	5.21	0.00
2 year bond	4.38	0.01
10 year bond	4.18	0.05
Other (10 year yields)		
Germany	2.34	-0.01
Japan	0.72	0.05
UK	4.01	0.02

Data as at 8:00am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: Solid US activity data prompted a sell-off in the treasury market, pushing US yields higher. Meanwhile, the rally in US equities took another leg higher, pushing the S&P 500 to a fresh record high. The US dollar was broadly softer, while the price of oil reached its highest level of the year so far.

Share Markets: US equities continued their march higher, notching fresh record highs. Optimism that the AI induced tech rally could have further to run supported the risk-on mood.

The tech-heavy NASDAQ rose 0.4%, while the S&P 500 finished the session 0.2% higher. This was the fifth consecutive daily gain for the S&P, which topped historic highs. The Dow Jones bucked the trend, slipping 0.3%.

The ASX 200 gained 0.1% yesterday, taking a breather after a strong 3-day rally which saw the local bourse jump 2.5%.

The Hang Seng rallied 3.6% on the announcement that the reserve requirement rate (RRR) for Chinese banks will be cut by 50 basis points. The Hang Seng has jumped more than 6% in two sessions following speculation that a fiscal package may be rolled out to support the Chinese equity market and news of the RRR cut.

Interest Rates: US treasuries sold off across the curve pushing yields higher. The 2-year yield rose 1 basis points to 4.38%, while the 10-year yield jumped 5 basis points to 4.18%.

Interest rate markets are pricing around 130 basis points of rate cuts in 2024, commencing from May. The implied probability of a rate cut as soon as March is sitting just shy of 40%.

Aussie bond futures followed the lead from the US market. The 3-year (futures) yield rose 2 basis points to 3.80%, while the 10-year yield rose 4 basis points to 4.29%.

Foreign Exchange: The US dollar slipped against every G-10 currency save the Aussie and the Canadian Loonie. The DXY index fell from a high of 103.59 to a low of 102.77 and is currently trading around 103.29.

The Aussie dollar traded between a low of 0.6566 and a high of 0.6621 but failed to hold onto gains above the 0.66 level. The AUD/USD pair closed marginally below where it opened at 0.6577.

Commodities: The West Texas Intermediate (WTI) oil future rose to US$75.35 per barrel, its highest level so far in 2024. The move higher was supported by data which showed US crude stockpiles fell by more than expected.

Australia: The Federal Government has confirmed it will make changes to the legislated stage 3 tax cuts which were due to come into effect on July 1. The exact details of the amended policy are due to be announced later today. However, it appears that the major goal of the policy pivot is to shift part of the benefit away from high-income earners, towards low- and middle-income earners to help provide cost of living support.

China: The Peoples Bank of China (PBOC) will reduce the RRR for banks by 50 basis points from early February. This is expected to add around 1 trillion yuan in liquidity in a hope it will boost lending. There are questions, however, around how effective the policy shift will be given that demand for credit from households and businesses remains weak.

Speculation continued regarding potential fiscal support, including a recently discussed package to support local equity markets.

Eurozone: The composite purchasing managers' index (PMI) edged up to 47.9 in January, from 47.6 in December, to remain in contractionary territory. The marginal improvement was driven by better-than-expected manufacturing activity. Although, the PMI suggests that manufacturing activity is still contracting, albeit at a slightly slower rate. Services activity was broadly unchanged in the month and remained in contractionary territory.

New Zealand: The headline numbers in the December quarter inflation report came in as expected, but the details were a little more ominous. Headline inflation rose 0.5% in the quarter, down from 1.8% previously. This was the slowest quarterly increase in three years. In annual terms, headline inflation slowed to 4.7% from 5.6%.

These figures represent solid progress on inflation. However, a surprise 1.1% quarterly increase in non-tradable (i.e. domestic) inflation suggests that local inflation pressures remain a challenge. This should keep policy settings steady for now.

United Kingdom: The services PMI printed at 53.8 in January, pointing to a third consecutive month of expansion in the services sector. The reading was an improvement on December's figure of 53.4 and came in slightly stronger than expected. The manufacturing PMI also improved in January, from 46.2 to 47.3, but remained in contractionary territory.

United States: The manufacturing PMI edged above 50 for the first time in three months in January, rising from 47.9 to 50.3 – its highest reading since October 2022. The outcome points to broadly a tentative stabilisation in the manufacturing industry which largely contracted through 2023. The services sector also had a surprise jump; the services PMI rose from 51.4 to 52.9 – its highest reading since July. The strong services reading suggests that recent resilience in household spending could continue.

Today's key data and events:

EZ IFO Bus. Climate Survey Jan exp 86.6 orev 86.4 (8pm)

EZ ECB Policy Decision (12:15am)

Main Refinancing Rate exp 4.50% prev 4.50%

US GDP Q4 Annualised exp 2.0% prev 4.9% (12:30am)

US Durable Goods Orders Dec exp 1.5% prev 5.4% (12:30am)

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.

Jameson Coombs, Economist

Ph: +61 401 102 789

Contact Listing

Chief Economist
Besa Deda
dedab@banksa.com.au
+61 404 844 817

Senior Economist
Jarek Kowcza
jarek.kowcza@banksa.com.au
+ 61 481 476 436

Senior Economist
Pat Bustamante
pat.bustamante@banksa.com.au
+61 468 571 786

Economist
Jameson Coombs
jameson.coombs@banksa.com.au
+61 401 102 789