# Morning Report

Monday, 15 April 2024

| Equities (close & % change) | | | Sydney Futures Exchange (last & change) | | | | | Interest rates (close & change) | | |
|---|---|---|---|---|---|---|---|---|---|---|
| S&P/ASX 200 | 7,788 | -0.3% | | Last | | Overnight Chg | | **Australia** | | |
| US Dow Jones | 37,983 | -1.2% | 10 yr bond | 4.22 | | -0.06 | | 90 day BBSW | 4.34 | -0.01 |
| Japan Nikkei | 39,524 | 0.2% | 3 yr bond | 3.79 | | -0.04 | | 2 year bond | 3.90 | 0.02 |
| China Shanghai | 3,165 | -0.5% | 3 mth bill rate | 4.33 | | 0.00 | | 3 year bond | 3.85 | 0.02 |
| German DAX | 17,930 | -0.1% | SPI 200 | 7,772.0 | | -50 | | 3 year swap | 3.98 | -0.09 |
| UK FTSE100 | 7,996 | 0.9% | FX Last 24 hrs | Open | High | Low | Current | 10 year bond | 4.27 | 0.01 |
| Commodities (close & change) | | | TWI | 61.7 | - | - | 61.7 | **United States** | | |
| CRB Index | 297.9 | 2.3 | AUD/USD | 0.6537 | 0.6543 | 0.6456 | 0.6467 | 3-month T Bill | 5.22 | -0.02 |
| Gold | 2,344.37 | -28.2 | AUD/JPY | 100.16 | 100.24 | 98.74 | 99.01 | 2 year bond | 4.90 | -0.06 |
| Copper | 9,334.96 | 121.6 | AUD/GBP | 0.5207 | 0.5211 | 0.5187 | 0.5197 | 10 year bond | 4.52 | -0.06 |
| Oil (WTI futures) | 85.66 | 0.6 | AUD/NZD | 1.0900 | 1.0906 | 1.0862 | 1.0892 | **Other (10 year yields)** | | |
| Coal (thermal) | 133.75 | 1.8 | AUD/EUR | 0.6094 | 0.6106 | 0.6068 | 0.6081 | Germany | 2.36 | -0.10 |
| Coal (coking) | 250.00 | 4.0 | AUD/CNH | 4.7433 | 4.7471 | 4.6926 | 4.7001 | Japan | 0.86 | -0.02 |
| Iron Ore | 110.45 | -0.6 | USD Index | 105.28 | 106.11 | 105.24 | 106.01 | UK | 4.14 | -0.06 |

Data as at 7:30am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

**Main Themes:** There was a risk off tone on Friday as the conflict in the Middle East threatened to quickly escalate. Equities declined sharply, bond yields were lower, and the US dollar strengthened. The price of oil also continued to increase.

Yesterday the risk of escalation became a reality with Iran launching a reported 300 missiles and drones in a direct attack on Israel. While Iranian officials have been reported saying that the "matter can be deemed concluded" its unclear whether Israel will respond, with this uncertainty likely to weigh on markets in the early part of this week.

**Share Markets:** On Friday US equities fell sharply on fears the conflict in the Middle East could turn into a region-wide war. This capped off a volatile week which included a stronger than expected US inflation read, that also drove US equities lower. The VIX Index, which measures market volatility, jumped to the highest level since October 2023.

The S&P 500 ended 1.5% lower to be down 1.6% over the week. The tech-heavy Nasdaq closed 1.6% lower to finish the week 0.5% in the red. Finally, the Dow Jones closed 1.2% lower, to be 2.4% lower over the week.

The ASX 200 closed 0.3% lower on Friday. Eight of eleven sectors were lower, led by materials stocks. Over the week the ASX 200 finished 0.2% higher. Futures are pointing to a weak open today.

**Interest Rates:** US bond yields increased across the curve on the back of the risk off tone. The 2-year bond yield declined 6 basis points to 4.90%. The 10-year treasury yield also closed 6 basis points lower, at 4.52%.

Interest-rate markets are pricing a full rate cut by September. For 2024, the market is pricing in around 47 basis points of cuts – slightly less than two 25-basis-point moves.

Movements in Australian yields mimicked moves in the US. The 3-year government bond yield (futures) declined 4 basis points, to 3.79%. The 10-year (futures) yield was 6 basis points lower, at 4.22%.

Interest-rate markets now see around a 95% chance of a rate cut this year. Markets have now fully priced the first full rate cut been by February 2025. Markets continue to expect the US Fed will cut before the Reserve Bank (RBA).

**Foreign Exchange:** The defensive US dollar was higher against major currencies, as the risk off tone saw demand for the USD increase. The USD Index rose from a low of 105.24 to a high 106.11 and settled around this level.

As a risk currency the Aussie was hit hard. In addition, softer than expected Chinese trade data also weighed on the Aussie. The AUD/USD pair declined throughout the session, going from a high of 0.6543 at around opening, to a low of 0.6456 before settling at 0.6467. In early trade today the pair remains under pressure and is sitting around the 0.6466.

The uncertainty over the conflict in the Middle East is likely to drive price action in the early part of the week. A softer than expected labour market read on Thursday could provide the Aussie with some support.

**Commodities:** Commodities were mixed. Oil, coal and copper were higher. Gold was lower but remains elevated, while iron ore was broadly unchanged.

The West Texas Intermediate (WTI) futures is currently sitting at around US$85.66 per barrel.

**Australia:** There were no significant data releases on Friday.

**China:** The trade surplus declined to USD 58.6b in March from USD 78.4b in March 2023. This was well below the USD 69.1b the market was expecting.

Exports declined by 7.5% over the year to March. This was much softer than the fall of 1.9% expected by the market. Notwithstanding this fall, leading indicators of overseas demand (such as forward orders) point to some resilience in coming months. In addition, there are some areas where growth in exports remains resilient. Exports of steel products rose 31% in the first three months of the year, the most since 2016.

Imports unexpectedly fell 1.9% over the year to March, much softer than the gain of 1.0% expected by the market.

**New Zealand:** The BusinessNZ Performance of Manufacturing Index deteriorated to 47.1 index points in March, from 49.3 points in February. The index has now been in contraction for 13 straight months. Production fell from its highest level since January 2023, while new orders remained in contraction for ten consecutive months.

**Japan:** Industrial production declined 0.6% in February, compared with the preliminary estimate of a 0.1% fall. This follows a 6.7% plunge in January - the steepest decrease since May 2020. Output of motor vehicles and machinery remained weak. In annual terms, industrial output fell by 3.9% in February, the fourth straight month of contraction.

**United States:** The University of Michigan consumer sentiment index fell to 77.9 index points in April, from 79.4 points in March. Both the current conditions, and expectations, sub-indices declined in April. Inflation expectations for the year-ahead increased to 3.1% from 2.9% in March. Medium term inflation expectations also ticked up to 3.0%, from 2.8% last month. It could reflect some frustration that the inflation slowdown may have slowed.

Import prices increased 0.4% in March, following a 0.3% increase in February. The price of imported fuel increased 4.7% in March, after increasing 1.3% in February. The price of nonfuel imports ticked up 0.1% in March following a 0.2% increase in February. Nonfuel import prices last recorded a monthly decline in October 2023. Higher prices for foods, feeds, and beverages; nonfuel industrial supplies and materials; and automotive vehicles in March more than offset lower prices for other consumer goods and capital goods.

Export prices rose 0.3% in March, after advancing 0.7% in February. Higher non-agricultural prices in March more than offset lower agricultural prices.

US Treasury Secretary Yellen said the US wouldn't take "anything off the table" in response to China's overcapacity, including possibly using additional tariffs.

US Fed officials were out in force reiterating the view that there is no urgency to cut rates in the near term, given elevated inflation and the resilience in the economy and labour market.

San Francisco Fed President, Mary Daly, said "there's absolutely, in my mind, no urgency to adjust the policy rate. Policy is in a good place right now, and I need to be fully confident that inflation is on track to come down to 2% — which is our definition of price stability — before we would consider a rate cut.".

Atlanta Fed President Bostic noted that "my outlook for 2024 is one cut toward the end of the year, and I expect that the economy's going to continue to grow. I think inflation is going to continue to fall, but much slower than I think many would like."

Kansas City Fed President, Jeffrey Schmid, said "with inflation running above target, economic growth continuing to show momentum, and elevated prices across a range of asset markets, the current stance of monetary policy is appropriate. Therefore, rather than pre-emptively adjust the policy rate, I would prefer to be patient and wait for clear and convincing evidence that inflation is on track to hit our 2% target before adjusting the stance of policy".

Boston Fed President, Susan Collins, noted "I've already pencilled in two cuts, which is more likely than three in an environment that calls for a lot of patience."

**Today's key data and events:**

EZ Industrial Production Feb prev -3.2% (7pm)
JP Machinery Orders Feb prev -1.7% (9:50am)
NZ Net Migration Feb prev 2870 (8:45am)
UK Rightmove House Prices Apr prev 1.5%
US NY Empire Mfg Apr prev -20.9 (10:30pm)
US Retail Sales Mar prev 0.6% (10:30pm)
US Business Inventories Feb prev 0.0% (12am)
US NAHB Housing Market Index Apr prev 51 (12am)

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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