29 April 2024

MORNING REPORT

Today's economic developments and market movements.

Key themes

The Fed's preferred inflation measure re-confirmed that inflation progress is stalling, while US activity data continued to show resilience. The data reinforced the broadening view that it's likely going to take longer than previously expected for central banks to start cutting rates.

However, equity markets continued to rally on Friday as resilient economic activity is supporting expectations that corporate earnings can hold up, offsetting the delayed support from rate cuts.

US treasury yields were lower at the long end of the curve but remained within their recent range, the policy sensitive 2-year yield was little changed.

The US dollar firmed against its major peers, with the Japanese Yen tumbling to a fresh 34-year low. The Aussie dollar outperformed, gaining further ground above 65 cents.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	62.3	0.0%
AUD/USD	0.6531	0.2%
AUD/JPY	103.08	2.0%
AUD/GBP	0.5230	0.4%
AUD/NZD	1.0976	0.4%
AUD/EUR	0.6107	0.6%
AUD/CNH	4.7481	0.4%
AUD/SGD	0.8895	0.5%
AUD/HKD	5.1130	0.2%
AUD/CAD	0.8928	0.3%
EUR/USD	1.0696	-0.3%
USD/JPY	157.85	1.7%
USD Index	105.94	-0.2%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.36	0.01
90 day BBSY	4.46	0.04
180 day BBSY	4.76	0.08
1 year swap	4.49	0.04
2 year swap	4.39	0.03
3 year swap	4.32	0.01
4 year swap	4.30	0.00
5 year swap	4.33	0.00
6 year swap	4.38	0.00
7 year swap	4.44	0.00
8 year swap	4.50	0.00
9 year swap	4.55	0.00
10 year swap	4.72	0.00

Equities	Close	Change
S&P/ASX 200	7,576	-1.4%
S&P 500	5,100	1.0%
Japan Nikkei	37,935	0.8%
Hang Seng	17,651	2.1%
Euro Stoxx 50	5,007	1.4%
UK FTSE100	8,140	0.8%
VIX Index	15.03	-2.2%

Government Bond Yields	Close	Change
Australia		
3 year bond	4.14	0.10
10 year bond	4.52	0.11
United States		
3-month T Bill	5.24	-0.02
2 year bond	4.99	0.00
10 year bond	4.66	-0.04
Other (10 year yields)		
Germany	2.58	-0.05
Japan	0.89	-0.01
UK	4.32	-0.04

Commodities	Current	Change
CRB Index	296.84	-0.3%
Gold	2337.96	0.2%
Copper	9876.97	1.1%
Oil (WTI futures)	83.85	0.3%
Coal (thermal)	267.00	2.1%
Coal (coking)	137.50	-1.1%
Iron Ore	116.50	0.0%
ACCU	33.25	0.4%

Sydney Futures Exchange	Current	Change
10 yr bond	4.51	0.08
3 yr bond	4.09	0.09
3 mth bill rate	4.43	0.03
SPI 200	7,620	-0.6%

Data as at 7:45am AEDT. Change is from the previous trading day (excluding the SFE, which is the change during the night session). **Source:** Bloomberg.

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Share markets:

US equities closed in the green on Friday, finishing the week higher and ending a string of three consecutive weekly falls. Strong earnings results are vindicating elevated prices and valuations helping to mitigate the impact of 'higher for longer' rhetoric on equities.

The S&P 500 gained 1.0% in Friday's session to finish the week up 2.7% - the strongest weekly gain since November. The NASDAQ jumped 2.0% to notch up a 4.2% weekly gain. The ASX 200 fell 1.4% on Friday but eked out a slight 0.1% rise over the week. ASX futures are up on the back of gains in the US and Europe.

Interest rates:

The US 2-year treasury yield was unchanged at 4.99% after round-tripping between a high of 5.01% and a low of 4.96%. The 2-year yield has traded between 4.86% and 5.02% since March's inflation surprise on April 10. The 10-year yield slipped 4 basis points to 4.66% after touching a low of 4.63%.

Market pricing has one 25-basis point Fed rate cut baked in for 2024 and the probability of a second hovering just shy of 40%.

Aussie bond futures yields gained slightly on night. The 3-year futures yield rose 9 basis points to 4.14%%, while the 10-year futures yield increased 8 basis points to 4.51%. This followed a sharp sell-off in the physical market which saw the 3-an-10-year yields leap to their highest levels since the end of November.

Interest rate markets have taken an RBA rate cut off of the table in 2024 and instead are pricing in around a 40% chance of a rate hike by the end of the year.

Foreign exchange:

The US dollar jumped on Friday, gaining against every G-10 currency except the Aussie. The DXY index rose from a low of 105.41 to a high of 106.18 and is currently trading at 105.94.

The Aussie dollar outperformed, bouncing off a low of 0.6517 to a high of 0.6554. However, the AUD/USD failed to hold on to gains above the 0.6550 handle, falling to around 0.6533 where it is currently trading.

The sell-off in the Japanese Yen intensified after the Bank of Japan (BoJ) meeting as Governor Ueda did little to stem the falling Yen. Ueda noted that the Yen's weakness has not significantly affected underlying inflation. The USD/JPY surged from a low of 154.99 to a high of 158.44 – its highest level since April 1990. The large swing and fresh multi-decade low will only add to speculation of possible FX market intervention from Japanese authorities.

Commodities:

West Texas Intermediate (WTI) oil futures rose 0.3% on Friday to US$83.85 per barrel. WTI futures were up 0.9% on the week following two consecutive weekly falls. Iron ore gained for a third consecutive week, closing at US$117.98 per metric tonne. Copper futures rose over the week and are up almost 12% since the end of March.

Australia:

The producer price index (PPI) rose 0.9% in the March quarter, unchanged from the December quarter. The PPI rose 4.3% in annual terms, accelerating from 4.1% over 2023. Annual producer price inflation has now accelerated for three consecutive quarters, suggesting there is less disinflation in the pipeline from producers. The detail in the data points highlights the inflation risks posed from housing construction, where input costs are reaccelerating as capacity constraints clash with a desperate need to add to housing supply.

Japan:

The BoJ left policy settings unchanged at its April policy meeting, as widely expected. The policy statement was pared back to just a few lines, providing very little guidance on policy, or from another perspective, plenty of flexibility for the BoJ to set policy parameters. The normal reference to the exact size of government bond purchases was dropped, though it was noted that they would continue at roughly the same pace as announced in March. Governor Ueda emphasized that progress in inflation momentum towards the 2% target is largely in line with expectations and left the door open to rate hikes should their goals be achieved.

New Zealand:

The consumer confidence index fell 5.0% in April to 82.1 – its lowest level since May 2023.

Today's key data and events

Time	Event	Exp	Prev
7:00pm	EU Consumer Confidence Apr Final	-	-14.7
	EU Economic Confidence Apr	96.7	96.3
	EU Ger. CPI Apr Prel.	0.6%	0.4%
12:30am	US Dallas Fed Mfg Index Apr	-11.3	-14.4

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.

United Kingdom:

The GfK Consumer Confidence Index ticked up to -19 in April from -21 in March. This equalled January's reading which was the strongest since early 2022.

United States:

The Fed's preferred inflation gauge, the personal consumption expenditure (PCE) deflator, gave policymakers little reason to shake their patient stance in March. PCE rose 0.3% in the month, as expected, taking annual PCE inflation to 2.7% - up from 2.5%. The core PCE also met expectations increasing 0.3% in the month and 2.8% through the year, both were unchanged on February's reading. The still-brisk inflation rate reinforces recent data indicating more persistent inflation pressures.

Personal income and spending data pointed to further resilience in the US consumer. Personal income rose 0.5% in March, meeting expectations. Strong income growth supported personal spending, which jumped 0.8% in the month, beating expectations for a 0.6% increase. Spending remained relatively strong even after adjusting for inflation. Real personal spending rose 0.5% in the month, while February's reading was revised up to 0.5% from 0.4% previously.

Pending home sales rose 3.4% in March to the highest level since February 2023. High borrowing costs and low advertised existing supply has been a headwind to sales volumes, however, a lift in newly constructed housing stock to the market is providing some support.

The Kansas City Fed manufacturing index edged down to -8 in April from -7 in March. This was weaker than consensus expectations which centred on a reading of -5.

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