2 May 2024

MORNING REPORT

Today's economic developments and market movements.

Key themes

Financial market participants were watching the outcome of the Federal Reserve closely overnight to better understand their interpretation of recent stronger-than-expected inflation data and the implications for the path of interest rates.

The Fed left rates unchanged, as expected. Fed Chair Powell noted that it will take longer than expected to gain the necessary confidence on inflation to start cutting rates - supporting the higher for longer theme. However, he noted that it was unlikely that the next move would be a hike.

The Fed also announced that it would slow the pace of balance sheet runoff from June.

The commentary was less hawkish than feared and markets responded in turn. Bond yields were lower as was the US dollar. Equities also fell despite lower rates, led by tech stocks.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	61.8	-0.6%
AUD/USD	0.653	0.8%
AUD/JPY	101.32	-1.3%
AUD/GBP	0.5210	0.5%
AUD/NZD	1.1006	0.0%
AUD/EUR	0.6093	0.3%
AUD/CNH	4.7233	0.5%
AUD/SGD	0.8883	0.5%
AUD/HKD	5.1089	0.8%
AUD/CAD	0.8966	0.5%
EUR/USD	1.0717	0.4%
USD/JPY	155.15	-2.0%
USD Index	105.65	-0.5%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.37	0.00
90 day BBSY	4.45	-0.01
180 day BBSY	4.73	-0.02
1 year swap	4.49	0.04
2 year swap	4.36	0.00
3 year swap	4.29	0.05
4 year swap	4.32	0.06
5 year swap	4.35	0.06
6 year swap	4.40	0.06
7 year swap	4.45	0.05
8 year swap	4.51	0.05
9 year swap	4.56	0.05
10 year swap	4.71	0.01

Equities	Close	Change
S&P/ASX 200	7,570	-1.2%
S&P 500	5,018	-0.3%
Japan Nikkei	38,274	-0.3%
Hang Seng	17,763	0.1%
Euro Stoxx 50	4,921	0.0%
UK FTSE100	8,121	-0.3%
VIX Index	15.39	-1.7%

Government Bond Yields	Close	Change
Australia		
3 year bond	4.12	0.08
10 year bond	4.51	0.09
United States		
3-month T Bill	5.25	0.01
2 year bond	4.96	-0.07
10 year bond	4.63	-0.05
Other (10 year yields)		
Germany	2.58	0.05
Japan	0.89	0.01
UK	4.37	0.02

Commodities	Current	Change
CRB Index	285.44	-2.1%
Gold	2320.50	1.5%
Copper	9903.73	-1.5%
Oil (WTI futures)	79.10	-3.6%
Coal (thermal)	256.00	-2.3%
Coal (coking)	148.35	2.3%
Iron Ore	115.75	-0.5%
ACCU	34.00	2.3%

Sydney Futures Exchange	Current	Change
10 yr bond	4.50	-0.02
3 yr bond	4.08	-0.03
3 mth bill rate	4.43	0.02
SPI 200	7,572	-1.4%

Data as at 8:10am 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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Today's key data and events

Time	Event	Exp	Prev
8:45am	NZ Building Permits Mar	-	14.9%
11:30am	AU Trade Balance Mar	$7.4bn	$7.3bn
	AU Dwelling Approvals Mar	2.5%	-1.9%
10:30pm	US Trade Balance Mar	-$67.3bn	-$68.9bn
12:00am	US Factory Orders Mar	2.0%	1.4%
	US Durable Goods Orders Mar Final	2.6%	2.6%

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.

Share markets:

Equity markets bucked the trend of other major asset classed and declined on the day despite lower interest rates implying lower discount rates. The major indices were dragged down by tech stocks. The S&P 500 and Nasdaq both lost 0.3% in the session. The industrials-heavy Dow Jones went the other way and rose 0.2%

The ASX 200 fell 1.2% yesterday. All 11 sectors were deeply in the red, with eight sectors down by over 1% during the session. Energy and materials were the worst performers, each down more than 1.5%. Futures were down overnight, pointing to a weak open this morning.

Interest rates:

US treasury yields were lower across the curve as traders breathed a sigh of relief that the commentary from the Fed wasn't a hawkish as feared. The commentary was largely interpreted as a sign that rate cuts would be delayed, not that rate cuts had been completely taken off the table. The 2-year yield fell 7 basis points to 4.96%. The 10-year yield was 5 basis points lower, at 4.63%.

Interest-rate markets priced in a greater probability of cuts in 2024. Markets are currently fully priced for a cut by the end of the year and have almost a 40% chance of a second cut. A cut by November is currently priced at a 91% probability and a 65% probability is attached to a September move. This compares with markets pricing one cut by December 2024 and a roughly 13% chance of a second in 2024 before the Fed decision.

The Aussie 3-year futures yield is currently trading at 4.08%, down 3 basis points. The 10-year futures yield is 2 basis points lower, at 4.50%.

Interest-rate markets continue to price a hike from the RBA in 2024. The odds of a hike are sitting around 34% in September but fall back to 24% by the end of 2024.

Foreign exchange:

The US dollar fell against major currencies as bond yields declined and expectations for cuts firmed slightly compared to a day earlier. The DXY Index lost 0.5%, falling from a high of 106.49 to a low of 105.44. It was trading at 105.69 at the time of writing.

The Aussie dollar benefited from US dollar weakness, rising 0.8% during the session. The AUD/USD pair ranged between a low of 0.6465 and a high of 0.6540, before slipping to 0.6527 at the time of writing.

Speculation that Japanese authorities have intervened again in the yen rose further as the USD/JPY pair staged a sharp move at the end of the New York session. The pair fell 2.0% on the day and most of that was concentrated in a rapid move from around 157.60 to a low of 153.04 in the dying moments of New York trade. This could signal the second intervention in only a few days from authorities.

Commodities:

Oil was lower overnight, with the West Texas Intermediate (WTI) futures contract falling to below US$80 per barrel for the first time since March. The contract price slipped 3.6% to US$79.06. A Bloomberg survey showed that OPEC pumped 26.81 million barrels per day of oil in April, down around 50,000 from March levels. Thermal coal, copper and iron ore were lower during the session, while coking coal and gold gained ground.

Australia:

Dwelling prices continued to rise across almost all regions in April. This was the 14th consecutive month of gains. The CoreLogic home value index, which covers the eight major capital cities, rose 0.6% for the third consecutive month in April, to be 9.4% higher in annual terms.

The story across the country remains a familiar one. The smaller capital cities of Perth (2.0%), Adelaide (1.3%) and Brisbane (0.9%) continue to lead the gains. Growth was weaker in Sydney (0.4%), as affordability continues to be the most stretched in the city.

Melbourne recorded a 0.1% decline in the month as price momentum continues to lag other capital cities. Indeed, Melbourne prices have gone backwards in four of the past six months. The other capital cities were all higher, with Darwin gaining 0.6%, Hobart rising 0.3%, and Canberra up 0.2%.

New Zealand:

The unemployment rate rose by more than expected in the first quarter of 2024. In Q1, the unemployment rate printed at 4.3%. This was above expectations of a 4.2% reading and follows a 4.0% outcome in the previous quarter.

The unemployment rate has been steadily trending higher from a low of 3.2% in Q4 2021 as the economy and labour market slow under the weight of restrictive monetary policy from the Reserve Bank of New Zealand (RBNZ). This was the highest unemployment reading since Q1 2021.

Employment was down in the quarter, falling by 0.2%. This followed growth of 0.4% in Q4 2023 and surprised to the downside, against expectations of 0.3% growth. In annual terms, employment grew 1.2%.

The participation rate also came in softer than expected, at 71.5%. This was down from the previous reading of 71.9% and against expectations of an unchanged result.

While many key employment indicators surprised to the downside, measures of wages growth (both including and excluding bonuses) were in line with expectations. Wages growth slowed to 0.8% in the quarter, down from 1.0% in the prior quarter. This was the weakest quarterly wages growth print since Q1 2022 for both measures.

The outcome shows that the labour market has continued to gradually ease. However, measures of wages growth have been slower to react than other indicators of the labour market. The RBNZ will continue to monitor the data closely for additional signs that its policies are working to slow the economy and bring inflation back to target.

United Kingdom:

The final markit manufacturing purchasing managers index (PMI) for April printed slightly stronger than the preliminary reading. The reading came in at 49.1, against a preliminary reading of 48.7.

Despite the stronger-than-expected outcome, the manufacturing sector remained in contractionary territory in the month. Indeed, absent a brief rise above 50 in March, the manufacturing sector has been in contractionary territory since July 2022. However, the measure has been broadly trending higher since hitting a trough of 43.0 in August 2023.

United States:

The Federal Reserve unanimously agreed to leave rates unchanged at the current target of 5.25% - 5.50%, as was expected. However, investors were watching commentary from the Fed very closely to better understand how they have viewed recent stronger-than-expected inflation data and what that means for the path of interest rates in 2024 and beyond.

Fed Chair Powell stated that it will take longer than expected for the Fed to gain the necessary confidence that inflation is heading back to target before they can cut rates. However, he added that it was unlikely that rates would need to be hiked further.

The statement included an additional sentence giving a nod to the recent stronger-than-expected inflation readings. It continued to note that risks around employment and inflation had moved toward better balance over the past year, but this language was toned down slightly from the previous statement.

Overall, the press conference was viewed as less hawkish than may have otherwise been expected and investors breathed a sigh of relief.

The other key development was that the Fed will begin to slow the pace of balance sheet runoff from June. The monthly redemption cap on Treasury securities will be reduced to $25 billion, from the current $60 billion. The pace of runoff of agency debt and agency mortgage-backed securities will remain at $35 billion per month.

Manufacturing sector activity surprised to the downside in April and slipped back into contractionary territory. The ISM manufacturing index fell to 49.2 in the month. This was down from 50.3 in March and was below expectations for a 50.0 outcome. Activity across the sector returned to contractionary territory after the March reading broke a streak of 16 consecutive months of readings below 50.

In a development that the Fed will keep a close eye on in the future, the measure of prices paid rose to the highest since June 2022. Price paid jumped to 60.9 in April, from 55.8 in March. This compares with expectations of a slight fall to 55.4. Prices paid have moved sharply higher in recent months, from 45.2 at the end of 2023.

New orders and employment were also in contractionary territory. New order fell to 49.1, from 51.4, while employment improved from a 47.4 reading last month, to 48.6.

Private sector employment rose 192k in April, as reported by ADP. The measure is often looked at as a leading indicator of the official payrolls release - due at the end of the week. However, the relationship can often be a volatile one and ADP has previously been very unreliable in providing a good signal on payrolls. The April figures was above expectations of 183k. It also comes on the back of a 208k gain last month - revised higher from an initial 184k reading.

Construction spending fell 0.2% in March. This was below expectations of a 0.3% gain. However, the miss was partly tempered by the previous reading being revised higher to 0.0%, from an initially report 0.3% fall.

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