8 May 2024

MORNING REPORT

Today's economic developments and market movements.

Key themes

A lack of top tier international data kept market moves largely in check overnight.

The S&P 500 eked out a slim gain, extending the string of increases to a fourth straight session.

The short-end of the treasury yield curve was little changed as comments from the Fed's Neel Kashkari did little to shift the dial on market pricing for rate cuts.

The US dollar gained against every G-10 currency and looks to be establishing a new range after the Fed's measured response to stalling inflation progress.

The RBA didn't live up to market expectations that it would reinstate its hiking bias. Instead opting to retain flexibility in the contest of weak domestic demand.

The RBA's rhetoric pushed local bond yields lower, while the Aussie dollar rally hit a wall.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	62.5	-0.2%
AUD/USD	0.6598	-0.4%
AUD/JPY	102.03	0.1%
AUD/GBP	0.5275	0.0%
AUD/NZD	1.0994	-0.3%
AUD/EUR	0.6135	-0.3%
AUD/CNH	4.7671	-0.3%
AUD/SGD	0.8936	-0.2%
AUD/HKD	5.1604	-0.4%
AUD/CAD	0.9056	0.0%
EUR/USD	1.0755	-0.1%
USD/JPY	154.64	0.5%
USD Index	105.36	0.3%

Equities	Close	Change
S&P/ASX 200	7,793	1.4%
S&P 500	5,188	0.1%
Japan Nikkei	38,835	1.6%
Hang Seng	18,479	-0.5%
Euro Stoxx 50	5,016	1.2%
UK FTSE100	8,314	1.2%
VIX Index	13.23	-1.9%

Commodities	Current	Change
CRB Index	289.57	0.7%
Gold	2314.10	-0.4%
Copper	9903.79	1.1%
Oil (WTI futures)	78.38	-0.1%
Coal (thermal)	253.00	-0.8%
Coal (coking)	146.60	0.4%
Iron Ore	118.05	-1.2%
ACCU	33.33	-1.1%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.37	0.01
90 day BBSY	4.47	0.01
180 day BBSY	4.74	0.02
1 year swap	4.38	-0.09
2 year swap	4.22	-0.10
3 year swap	4.10	-0.13
4 year swap	4.07	-0.13
5 year swap	4.09	-0.13
6 year swap	4.14	-0.12
7 year swap	4.20	-0.12
8 year swap	4.25	-0.12
9 year swap	4.30	-0.13
10 year swap	4.50	-0.10

Government Bond Yields	Close	Change
Australia		
3 year bond	3.92	-0.11
10 year bond	4.31	-0.07
United States		
3-month T Bill	5.23	0.00
2 year bond	4.83	0.00
10 year bond	4.46	-0.03
Other (10 year yields)		
Germany	2.42	-0.05
Japan	0.87	-0.03
UK	4.13	-0.10

Sydney Futures Exchange	Current	Change
10 yr bond	4.29	-0.03
3 yr bond	3.92	0.01
3 mth bill rate	4.38	-0.01
SPI 200	7,828	0.2%

Data as at 8:00am 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
4pm	EZ Ger. Industrial Production Mar	-0.7%	2.1%

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:

The S&P 500 eked out a fourth straight gain, rising 0.1%. The NASDAQ recorded a 0.1% fall.

Equities were more lively in Europe. The Euro Stoxx 50 and the London FTSE 100 rose 1.2%, while the German DAX climbed 1.4%.

The ASX 200 jumped 1.4% yesterday, supported by RBA rhetoric that was less hawkish than some expected. Futures were up a further 0.2% overnight.

Interest rates:

The US 2-year treasury yield was unchanged at 4.83% after briefly slipping to 4.80%. The 10-year yield fell 3 basis points to 4.46,% a near 4-week low.

Market pricing has the first Fed rate cut fully priced in for November, the implied odds of a second cut by the end of the year is sitting around 70%.

Aussie bond futures were mixed overnight. The 3-year futures yield rose 1 basis points to 3.92%, while the 10-year futures yield fell 3 basis points to 4.29%. Physical bond yields traded sharply lower yesterday following soft retail data and the array of RBA commentary.

Interest rate markets pared by the probability of additional rate hikes and are pricing in an extended period of unchanged rates.

Foreign exchange:

The US dollar strengthened, gaining against every G-10 currency. The DXY rose from a low of 105.03 to a high of 105.45 and is currently trading around 105.36.

The Aussie dollar's rally came to a screeching halt after the RBA's softer than expected rhetoric. The AUD/USD slipped from a high of 0.6644 to a low of 0.6587 and is currently trading around 0.6598. While the Aussie is still holding onto most of the run up from April's low of 0.6363, a run of stronger domestic data or weak US data is likely needed to see the Aussie take another leg higher.

The Euro finished lower after having a brief look at 1.0790. The EUR/USD ran out of puff at 1.0787 before falling to an intra-day low of 1.0748, only slightly below were it is currently trading. The Japanese yen continued its gradual slide lower, the USD/JPY trading between 153.86 and 154.75. The British Pound similarly lost some ground ,easing from a high of 1.2571 to a low of 1.2501.

Commodities:

Commodity prices were broadly lower overnight. Gold (-0.4%), oil (-0.1%) and iron (-1.2%) ore all slipped, while copper bucked the trend gaining 1.1%.

Australia:

As expected, the RBA Board left the cash rate target unchanged at 4.35% but strengthened its rhetoric around upside inflation risks. The statement highlighted that inflation is declining, but more slowly than expected and the Bank's forecasts were updated to reflect recent inflation surprises.

In the media conference, the Governor emphasised that the Board is trying to get inflation down in good time to ensure inflation expectations remain well anchored, while not going so fast that they tip the economy into recession. The Governor said it is hoped that they will not need to raise rates further, but they will act if needed. As expected, the statement retained a neutral bias with the Board "not ruling anything in and not ruling anything out".

Our house view is that the most likely outcome is unchanged rates for a period, but further upside surprises will change the calculus.

Retail sales volumes fell 0.4% in the March quarter, the fifth quarterly fall in the past six quarters. Retail sales volumes were 1.3% lower in annual terms as the discretionary side of the economy remains under significant pressure.

The 2024-25 Victorian budget provided additional cost of living support to households while also balancing the need to ensure the disinflationary process continues. The government will provide every public school student in the state with a 400 credit to help with education related expenses. The government has also delayed a number of infrastructure projects.

Notwithstanding these changes, the net operating deficit deteriorated by over a billion dollars in 2024/25, while improving in the outer years of the forwards. Net debt is forecast to increase and peak at above 25% of gap.

Euro Zone:

German factory orders slipped 0.4% in March, while February's 0.2% gain was revised down sharply to a 0.8% fall. The surprise fall in orders points to persistent weakness in the industrial sector, even as the wider-economy stages a mild rebound.

Retail sales rose 0.8% in March, more than offsetting the upwardly revised 0.3% fall in February. In annual terms, retail sales were 0.7% higher, the first annual increase since September 2022.

United States:

Minneapolis Fed President, Neel Kashkari, said that he expects the Fed to need to hold rates steady for an extended period. However, Kashkari did not rule out the possibility of another hike, highlighting the risk that policy settings are not as tight as officials suspect.

Consumer credit rose $6.3bn in March, the smallest increase this year as households relied less on credit card debt. If sustained, the slowdown in credit growth could be a positive sign for the health of the US consumer, especially as pandemic-era savings wane and the spending pulse remains solid.

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