



16 May 2024

MORNING REPORT

Today's economic developments and market movements.

Key themes

Inflation data and a weak retail sales print in the US led traders to shorten their bets on the timing of a rate cut, spurring equity markets higher and pushing Treasury prices lower.

The US dollar sold off, pushing the AUD/USD to a 4-month high just under 0.6700.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	63.0	0.5%
AUD/USD	0.6698	1.0%
AUD/JPY	103.49	0.0%
AUD/GBP	0.5279	0.3%
AUD/NZD	1.0931	-0.3%
AUD/EUR	0.6151	0.4%
AUD/CNH	4.8329	0.7%
AUD/SGD	0.9002	0.5%
AUD/HKD	5.2304	1.0%
AUD/CAD	0.9109	0.7%
EUR/USD	1.0889	0.6%
USD/JPY	154.50	-1.0%
USD Index	104.35	-0.6%

Equities	Close	Change
S&P/ASX 200	7,754	0.3%
S&P 500	5,308	1.2%
Japan Nikkei	38,386	0.1%
Hang Seng	19,074	-0.2%
Euro Stoxx 50	5,101	0.4%
UK FTSE100	8,446	0.2%
VIX Index	12.45	-7.2%

Commodities	Current	Change
CRB Index	289.97	0.9%
Gold	2389.84	1.2%
Copper	10149.79	1.1%
Oil (WTI futures)	78.88	0.8%
Coal (thermal)	241.00	-1.2%
Coal (coking)	141.50	0.6%
Iron Ore	114.25	-1.1%
ACCU	33.25	-1.5%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.35	0.01
90 day BBSY	4.42	0.00
180 day BBSY	4.67	0.00
1 year swap	4.32	-0.04
2 year swap	4.17	-0.07
3 year swap	4.07	-0.09
4 year swap	4.04	-0.09
5 year swap	4.06	-0.10
6 year swap	4.10	-0.10
7 year swap	4.16	-0.11
8 year swap	4.22	-0.11
9 year swap	4.27	-0.11
10 year swap	4.43	-0.09

Government Bond Yields	Close	Change
Australia		
3 year bond	3.88	0.00
10 year bond	4.23	-0.01
United States		
3-month T Bill	5.24	0.01
2 year bond	4.72	-0.09
10 year bond	4.34	-0.10

Other (10 year yields)		
Germany	2.42	-0.13
Japan	0.96	0.00
UK	4.07	-0.11

Sydney Futures Exchange	Current	Change
10 yr bond	4.24	-0.09
3 yr bond	3.87	-0.08
3 mth bill rate	4.36	0.00
SPI 200	7,842	0.6%

Data as at 9:20am 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:

The benchmark S&P 500 share market index closed at a record high, its 23rd for this year. US inflation data spurred a relief rally in stocks after markets shortened their odds on the timing of a rate cut. The S&P 500 closed 1.2% higher and closed above 5,300 for the first time. The Dow rose 0.9% and the Nasdaq lifted 1.4% and to a new record high.

Interest rates:

US Treasury prices rallied after the release of US inflation and weaker-than-expected retail sales data. The US 2-year bond yield closed 2 basis points weaker at 4.82%, the lowest in over a month (since April 4). The US 10-year yield fell 4 basis points to 4.45%, also the lowest rate in over a month. Interest-rate markets brought forward their expectations for interest rate cuts by the US Federal Reserve. Two rate cuts before the end of this year are now fully priced with the first rate cut fully priced for September.

Foreign exchange:

With rate traders shortening the timing of US rate-cut bets, the US dollar sold off against other major currencies and the Aussie dollar. The US dollar index fell 0.6% on the day and hit a one-month low. The AUD/USD shot up to a four-month high of 0.6697, from 0.6628 before the US inflation data and could pierce through the 0.6700 level later today, depending on what the domestic jobs data reveals. A strong jobs data should see the AUD/USD move above 0.6700, but a weak report would throw into question whether market pricing is valid around the RBA not cutting rates until well into next year. The NZD had a deeper appreciation against the USD, leading the AUD/NZD cross to fall to a one-month low of 1.0927.

Commodities:

Oil prices rose marginally overnight after data showed US crude inventories fell by 2.51 million barrels last week. This decline was bigger than expected by consensus. Most other commodity prices firmed in overnight trade with the CRB index closing higher.

Australia:

The wage price index (WPI) rose by 0.8% in the March quarter, a touch the market consensus forecast (+0.9%). On an annual basis, wages growth moderated to 4.1% from what is likely to be the peak of 4.2% in the December quarter. This marks the first moderation in wage inflation in two years.

Today's key data and events

Time	Event	Exp	Prev
9:50am	JP GDP Q1	-0.3%	0.1%
11:30am	AU Labour Force Apr		
	Employment Change	20k	-6.6k
	Unemployment Rate	3.9%	3.8%
	Participation Rate	66.6%	66.6%
2:30pm	JP Industrial Production Mar Final		3.8%
10:30pm	US Housing Starts Apr	7.5%	-14.7%
	US Building Permits Apr	0.9%	-3.7%
	US Philadelphia Fed Index May	8.0	15.5
	US Import Price Index Apr	0.4%	0.4%
	US Export Price Index Apr	0.2%	0.3%
11:15pm	US Industrial Production Apr	0.1%	0.4%

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.

Public sector wages rose 0.5% over the March quarter, which is the softest quarterly gain since the June quarter of 2021. It is important to note that the quarterly gain in the recent quarter is much softer than what was reported in the March quarter of last year (+1.0%), but it was similar in size to the March quarter in 2022 and the five-year pre-pandemic average for March quarters (+0.5%). This explains the sharp step down in the annual growth rate for public wages from a peak of 4.3% in the December quarter of 2023 to 3.8% in the March quarter of 2024; the robust result from the March quarter of 2023 cycled out and a lower (but around average) increase for March 2024 cycled in.

Meanwhile, private sector wages rose 0.8% in March 2024, which is the third straight softening in the quarterly growth rate. While the moderation in annual growth was not nearly as large as the public sector - from 4.2% in the December quarter to 4.1%yr in March - it is notable that private sector wages growth has also moved off its peak.

Eurozone:

GDP in the euro area economy rose 0.3% in Q1, meeting consensus expectations and following a similar print in Q4 of last year. In annual terms, GDP expanded by 0.4%. Employment growth also met consensus forecasts, rising by 0.3% in Q1, but slowing a little in annual terms to 1.0% (from 1.2% in the previous quarter). However, industrial production bucked the trend and disappointed consensus forecasts. Industrial production rose by 0.6% in March, slower than the 1.0% growth outcome in February. European Central bank (ECB) member Villeroy suggested a cut is likely in June. Villeroy said "as we have sufficient confidence, we will very probably begin cutting central-bank rates, doubtless at our meeting at the start of June". Other ECB members, Mueller and Knot, also hinted at a rate cut in June.

United States:

The US consumer price index (CPI) rose 0.3% in April, which was a smaller rise than in March and below the consensus forecast of 0.4%. In annual terms, the CPI slowed to 3.4% in April from 3.5% in the previous month.

Core consumer prices, which strip out volatile food and energy costs, met consensus expectations, rising by 0.3% in April. It a tad lower than the monthly growth rate in March, leading the annual rate to soften to 3.6%, from 3.8% in March. This marked the lowest annual rate since April 2021 and it was also the first time the monthly growth rate eased in six months.

It was worth noting that the April inflation data revealed shelter inflation remained high at 5.5% on an annual basis and the monthly increase stayed steady at 0.4%. Housing costs continue to be one of the main drivers of inflation in the US.

Retail sales remained unchanged in April and printed below the consensus forecast of a 0.4% gain, but underlying measures of the report weakened, in a sign that consumer spending has softened. Excluding auto and gas, retail sales fell 0.1% in April and the annual rate softened to just 0.2%, from 0.7% growth in March.

The inflation and retail sales figures come a day after the US Federal Reserve Chair Jay Powell warned the US central bank may have to maintain high interest rates for longer as it struggles to tame persistent inflation.

In more minor data releases, the NAHB homebuilder confidence index fell from 51 in April to 45 in May and the New York Empire manufacturing index deteriorated from -14.3 in April to -15.6 in May. Both outcomes were weaker than consensus expectations.



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