



21 May 2024

MORNING REPORT

Today's economic developments and market movements.

Key themes

US bond yields were higher amid a number Fed officials suggesting that rates would remain on hold for longer. This will give the US Fed time to collect the evidence it needs to be confident inflation is falling to the 2% inflation target. As a result, the US dollar also edged higher.

US equities were mixed, with key market indexes remaining at close to record highs.

The price of oil fell while gold touched a fresh record high.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	63.4	0.5%
AUD/USD	0.6668	-0.4%
AUD/JPY	104.16	0.0%
AUD/GBP	0.5248	-0.4%
AUD/NZD	1.092	0.1%
AUD/EUR	0.6141	-0.3%
AUD/CNH	4.8316	-0.2%
AUD/SGD	0.8982	-0.2%
AUD/HKD	5.1997	-0.4%
AUD/CAD	0.9085	-0.3%
EUR/USD	1.0857	-0.1%
USD/JPY	156.21	0.4%
USD Index	104.62	0.2%

Equities	Close	Change
S&P/ASX 200	7,864	0.6%
S&P 500	5,308	0.1%
Japan Nikkei	39,070	0.7%
Hang Seng	19,636	0.4%
Euro Stoxx 50	5,074	0.2%
UK FTSE100	8,424	0.0%
VIX Index	12.15	1.3%

Commodities	Current	Change
CRB Index	295.61	0.6%
Gold	2425.31	0.4%
Copper	10615.48	2.4%
Oil (WTI futures)	79.80	-0.3%
Coal (thermal)	244.00	0.4%
Coal (coking)	140.00	-0.4%
Iron Ore	119.85	0.9%
ACCU	33.30	0.2%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.34	0.00
90 day BBSY	4.39	0.00
180 day BBSY	4.63	-0.01
1 year swap	4.30	0.00
2 year swap	4.15	0.01
3 year swap	4.07	0.01
4 year swap	4.03	0.01
5 year swap	4.05	0.01
6 year swap	4.10	0.00
7 year swap	4.16	0.00
8 year swap	4.22	0.00
9 year swap	4.27	0.00
10 year swap	4.44	0.00

Government Bond Yields	Close	Change
Australia		
3 year bond	3.88	0.03
10 year bond	4.24	0.03
United States		
3-month T Bill	5.24	-0.01
2 year bond	4.85	0.02
10 year bond	4.44	0.02
Other (10 year yields)		
Germany	2.53	0.01
Japan	0.98	0.03
UK	4.17	0.04

Sydney Futures Exchange	Current	Change
10 yr bond	4.27	0.02
3 yr bond	3.89	0.02
3 mth bill rate	4.35	0.01
SPI 200	7,879	-0.1%

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 drifted for most of the session amid little top tier economic news.

The Nasdaq climbed 0.7% to reach a fresh record high. Nvidia finished the session 2.5% higher as investor position ahead of the quarterly results later this week.

The S&P 500 edged up by 0.1% to finish just short of its all-time high but closing above 5,300. The Dow Jones fell 0.5%, to finish just below the 40,000 level.

The ASX 200 closed 0.6% higher. Materials stocks led the market higher on the back of higher commodity prices, with gold hitting an all time high. Seven out of eleven industries finished in the green.

Interest rates:

US bond yields were higher driven by hawkish Fed speakers.

The 2-year bond yield increased by 2 basis points to 4.85%. The 10-year treasury yield also increased by 2 basis points to 4.44%.

Interest-rate markets continue to price a full rate cut by November. For 2024, the market is pricing in around 40 basis points of cuts.

Australian yields were also higher. The 3-year government bond yield (futures) was up by 2 basis point to 3.89%. The 10-year government bond yield (futures) was also up by 2 basis point to 4.27%.

Interest-rate markets are pricing in around a 65% chance of a cut by the end of the year.

Foreign exchange:

The US dollar advanced supported by higher yields. The DXY index traded between a low of 104.39 and a high of 104.65. The DXY is currently sitting around 104.63.

The Aussie ended slightly lower after breaking through 0.6700 level during the session. The AUD/USD pair traded between a low of 0.6662 and a high of 0.6709. It is currently sitting around 0.6668.

The pair has been trending higher on the back of higher commodity prices and the brighter outlook for China following last week's policy announcements.

Today's key data and events

Time	Event	Exp	Prev
10:30am	AU WBC-MI Consumer Sentiment		82.4
11:30am	AU RBA Board Meeting Minutes May		
7:00pm	EZ Trade balance Mar	20.0b	17.9b

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.

Commodities:

Commodities were generally higher, with gold reaching a fresh high. Copper and iron ore were also higher. Coal and oil were slightly lower.

The West Texas Intermediate (WTI) futures is currently sitting at around US\$79.80 per barrel.

Australia:

There were no major economic data releases yesterday.

China:

Banks left their benchmark lending rates unchanged following the central bank's decision last week to hold a key rate on loans it offers to lenders. The one-year loan prime rate was held at 3.45%. The five-year rate, a reference for mortgages, was kept at 3.95%.

United Kingdom:

The average asking price for listed dwellings increased by 0.8% in May. In annual terms the average asking price increased by 0.6% reaching a new record high. Price growth is being led by houses in the top price points, which has seen prices grow by an average of 1.3% compared with last year.

United States:

A number Fed officials suggested that rates would remain on hold for longer as the Fed waits for more evidence that inflation is sustainably falling to the 2% inflation target. Officials also suggested there was no rush to start the easing cycle any time soon.

Michael Barr, Vice chair for Supervision, said current rates need more time to bring inflation down to the 2% target. He said "we will need to allow our restrictive policy some further time to continue to do its work. I think we are in a good position to hold steady and closely watch how conditions evolve."

Philip Jefferson, the Fed's Vice Chair, said April's inflation data was encouraging, but cooling is slower than he'd like. He noted it was "too early to know whether that is indicative of what is to come, but it is a good sign for us."

Mary Daly, San Francisco President, said she's not yet confident inflation is definitively receding and there is no "urgency" to adjust interest rates.

Cleveland Fed President, Loretta Mester, said policy is restrictive, but policymakers need to wait for more evidence about the path of inflation before adjusting interest rates. She noted "It's too soon to tell what path inflation is on, so we just need to collect more information on that."

Raphael Bostic, Atlanta Fed President, said "it will take a while" before the Fed is confident inflation is clearly on a path to target, noting "I do think that our new steady state (for interest rates) is likely to be higher than what people have known over the last decade — maybe back to where we were in the 1990s and 2000s, but we'll just have to see."



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