22 May 2024

MORNING REPORT

Today's economic developments and market movements.

Key themes

Comments from Fed members provided little by way of fresh guidance, reiterating the need for patience. However, Fed member Waller gave the first indication of potential rate cut timing saying three to five months of supportive data could be sufficient to support cuts by the end of the year.

Remarks from ECB officials supported expectations for a rate cut in June. The pace of policy easing thereafter remains in question. Strong labour cost data overnight provided a fresh reminder to proceed with caution.

US equities extended on record highs. NVIDIA earnings tonight kept momentum contained.

Treasury yields continued to gyrate slipping modestly across the curve.

FX markets traded largerly sideways. The US dollar gained slightly while the Aussie, Euro and Pound were little changed.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	63.1	-0.5%
AUD/USD	0.6668	0.0%
AUD/JPY	104.11	-0.1%
AUD/GBP	0.5245	-0.1%
AUD/NZD	1.094	0.2%
AUD/EUR	0.6142	0.0%
AUD/CNH	4.832	0.0%
AUD/SGD	0.8982	0.0%
AUD/HKD	5.2028	0.0%
AUD/CAD	0.9096	0.2%
EUR/USD	1.0856	0.0%
USD/JPY	156.14	-0.1%
USD Index	104.62	0.1%

Equities	Close	Change
S&P/ASX 200	7,852	-0.2%
S&P 500	5,321	0.3%
Japan Nikkei	38,947	-0.3%
Hang Seng	19,221	-2.1%
Euro Stoxx 50	5,047	-0.5%
UK FTSE100	8,416	-0.1%
VIX Index	11.86	-2.4%

Commodities	Current	Change
CRB Index	295.96	0.1%
Gold	2421.70	-0.2%
Copper	10783.65	-0.4%
Oil (WTI futures)	78.66	-0.8%
Coal (thermal)	250.00	2.5%
Coal (coking)	142.80	0.4%
Iron Ore	122.15	1.9%
ACCU	33.18	-0.4%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.34	0.00
90 day BBSY	4.39	0.00
180 day BBSY	4.62	-0.01
1 year swap	4.31	0.01
2 year swap	4.15	0.01
3 year swap	4.07	-0.01
4 year swap	4.03	0.00
5 year swap	4.05	-0.01
6 year swap	4.09	-0.01
7 year swap	4.15	-0.01
8 year swap	4.21	-0.01
9 year swap	4.26	-0.01
10 year swap	4.43	-0.01

Government Bond Yields	Close	Change
Australia		
3 year bond	3.89	0.02
10 year bond	4.25	0.01
United States		
3-month T Bill	5.22	-0.01
2 year bond	4.83	-0.02
10 year bond	4.41	-0.03
Other (10 year yields)		
Germany	2.50	-0.03
Japan	0.98	0.00
UK	4.13	-0.04

Sydney Futures Exchange	Current	Change
10 yr bond	4.26	-0.01
3 yr bond	3.89	0.00
3 mth bill rate	4.36	0.01
SPI 200	7,899	0.3%

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.

Jameson Coombs
Economist, Westpac Group
P: +61 401 102 789
E: jameson.coombs@westpac.com.au

Today's key data and events

Time	Event	Exp	Prev
9:50am	JN Core Machinery Orders May	-2.0%	7.7%
12pm	NZ RBNZ Policy Decision	5.50%	5.50%
4pm	UK Public Sector Borrowing Apr	£18.5bn	£11.0bn
	UK CPI Apr	0.1%	0.6%
12am	US Existing Home Sales Apr	0.8%	-4.3%
4am	FOMC Meeting Minutes		

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:

US equities posted gains, extending record highs. The S&P 500 rose 0.3%, while the NASDAQ climbed 0.2%. All eyes are on NVIDIA earnings due to be released after tonight's close.

The major European bourses traded modestly lower. The Euro Stoxx 50 slipped 05%, while the German Dax and British FTSE 100 eased 0.2% and 0.1%, respectively.

The ASX 200 lost ground immediately after the starting bell yesterday and never fully regained momentum, oscillating throughout the session before closing down 0.2%. Futures gained 0.3% overnight.

Interest rates:

Treasury yields traded lightly lower, the 2-and-10-year yields easing 2 and 3 basis points respectively, to 4.83% and 4.41%. The first Fed rate cut remains fully price in for November with the implied odds of a second by year-end setting just shy of 70%.

Aussie bond yields edged higher in yesterday's trade and futures were little changed overnight. The 3-year futures yield was flat at 3.89%, while the 10-year yield slipped 1 basis points to 4.26%. Market pricing implies a 50-50 chance of an RBA rate cut this year.

Foreign exchange:

FX markets were fairly tame over the last 24 hours. The US dollar index edged higher to 104.62 after trading between a fairly narrow range of 104.48 to 104.77.

The Aussie dollar slipped to a low of 0.6646 during Asian trade but regathered some momentum overnight to hit an intra-day high of 0.6679. The AUD/USD was trading slightly lower around 0.6668 at the time of writing.

The sell-off in the Japanese Yen took a breather. The USD/JPY bouncing off a high of 156.55 to finish 0.2% lower at 156.17. The Euro and the Pound were little changed at 1.0856 and 1.2711, respectively.

Commodities:

Iron ore futures jumped 1.9% to US$122.15/MT, their highest level in 3 months, likely supported by last week's announcement of additional stimulus to stem the bleeding in the Chinese residential property market.

West Texas Intermediate (WTI) oil futures slipped 0.8% to US78.66 per barrel. Copper futures pulled back slightly (-0.4%) after a massive 33% rally since early February underpinned by a combination of solid physical demand, speculative excess and a short-squeeze on positioning.

Australia:

The RBA continues to assess the risks to the outlook as balanced. However, the May meeting minutes noted that "the costs associated with them could be asymmetric", referring to the corrosive impacts of inflation on household income and wealth.

Ultimately, "members judged that the case to leave the cash rate unchanged at this meeting was the stronger one" but the caveat that "a higher cash rate might also be required, even with ongoing weakness in aggregate demand" was an important reminder that the Board remains willing to tighten policy further should upside inflation surprises be realised.

The Board was understandably alert to the potential upside risks to inflation and noted that the risk of inflation remaining higher for longer had increased. However, greater attention was also paid to the risk that household consumption is weaker than expected despite a forecast recovery in disposable income.

The Board's "limited tolerance for inflation returning to target later than 2026" means an additional rate hike cannot be ruled out all-together. However, such an outcome would hinge on a meaningful upside surprise to inflation. Given our inflation forecasts and the underlying softness in economic activity, we expect the most likely trajectory for the cash rate to be an extended pause as the RBA gathers further evidence the inflation target can be sustainably achieved.

The Westpac-Melbourne Institute consumer sentiment index remained deeply entrenched in pessimistic territory in May falling 0.3% to 82.2. A well received Federal Budget was more than offset by inflation concerns following the upside surprise in the March quarter.

Euro Zone:

ECB President Christine Lagarde said "I'm really confident that we have inflation under control" strengthening guidance that the ECB is likely to commence cutting rates in June. However, the pace of easing beyond June remains in question. Most expect the policy easing to be gradual as a pose to quick fire rate cuts. Remarks from Bundesbank President Joachim Nagel supported this view. Nagel said that "if rates are lowered for the first time in June, that does not mean we will cut rates further in subsequent Governing Council meetings".

Annual growth in labour costs jumped to 4.9% in the March quarter, up from 3.4% in the December quarter. A gentle slowdown in labour costs remains in-tact, however, the sharp acceleration over the start of 2024 may be cause for policymakers to rethink the pace of rate cuts.

The trade surplus was little changed in March, widening slightly to €17.3bn from €16.7bn in February. Both imports (-12.1%) and exports (-9.5%) slipped over the year to March.

United States:

Federal Reserve Governor, Christopher Waller, said "in the absence of a significant weakening in the labour market, I need to see several more months of good inflation data before I would be comfortable supporting an easing", further reinforcing higher-for-longer messaging. However, Waller broadened the guidance by providing additional context around timing, specifically, "if the data were to continue softening throughout the next three to five months, you can even think about doing it (rate cuts) at the end of this year". Waller described the most recent inflation data as "far from failing but not stellar either" but added that further rate hikes are "probably unnecessary".

Atlanta Fed President, Raphael Bostic struck a similar tone, emphasising patience on the basis that early policy easing could drive a re-acceleration in inflation if demand from households and businesses remained too strong. Bostic said "I'm not in a hurry to cut rates" adding that "we need to make sure that when we start on that path, it's unambiguous that inflation is going to get to 2%".

Authors

Westpac Economics

Luci Ellis
M: +61 421 835 252
E: luci.ellis@westpac.com.au

Besa Deda
M: +61 404 844 817
E: besa.deda@westpac.com.au

Matthew Hassan
M: +61 409 227 159
E: mhssan@westpac.com.au

Elliot Clarke
M: +61 459 848 856
E: eclake@westpac.com.au

Justin Smirk
M: +61 459 844 788
E: jsmirk@westpac.com.au

Pat Bustamante
M: +61 434 856 909
E: pat.bustamante@westpac.com.au

Ryan Wells
M: +61 401 423 628
E: ryan.wells@westpac.com.au

Illiana Jain
M: +61 403 908 032
E: illiana.jain@westpac.com.au

Jameson Coombs
M: +61 401 102 789
E: jameson.coombs@westpac.com.au

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