Morning Report

Monday, 26 February 2024

st.george

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,644	0.4%		Last		Overnight Chg		**Australia**		
US Dow Jones	39,132	0.2%	10 yr bond	4.15		-0.06		90 day BBSW	4.34	0.00
Japan Nikkei	39,099	2.2%	3 yr bond	3.74		-0.04		2 year bond	3.87	0.05
China Shanghai	3,150	0.5%	3 mth bill rate	4.33		0.00		3 year bond	3.79	0.05
German DAX	17,419	0.3%	SPI 200	7,605.0		4		3 year swap	3.96	-0.02
UK FTSE100	7,706	0.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.20	0.04
Commodities (close & change)			TWI	61.4	-	-	61.4	**United States**		
CRB Index	270.8	-3.3	AUD/USD	0.6556	0.6581	0.6550	0.6556	3-month T Bill	5.24	0.00
Gold	2,035.40	11.0	AUD/JPY	98.67	99.06	98.61	98.81	2 year bond	4.69	-0.02
Copper	8,510.00	-24.5	AUD/GBP	0.5178	0.5192	0.5170	0.5170	10 year bond	4.25	-0.07
Oil (WTI futures)	76.49	-2.1	AUD/NZD	1.0575	1.0606	1.0570	1.0590	**Other (10 year yields)**		
Coal (thermal)	125.25	0.5	AUD/EUR	0.6058	0.6075	0.6056	0.6056	Germany	2.36	-0.08
Coal (coking)	310.00	0.5	AUD/CNH	4.7217	4.7418	4.7190	4.7244	Japan	0.72	0.00
Iron Ore	120.00	0.0	USD Index	103.95	104.05	103.77	103.96	UK	4.04	-0.07

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.

Main Themes: Bond yields fell on Friday amid a day with little in the way of major economic data or developments. Equities closed mixed but around record levels following an AI-related surge during the previous session. The US dollar traded in a narrow range against a basket of major currencies.

Share Markets: Stock markets ran out of puff on Friday following an AI-related surge on Thursday.

The S&P 500 initially rose above 5,100 index points at the beginning of the session before pulling back to close below that level and broadly unchanged on the day. For the week, the S&P 500 was up 1.2%.

The Nasdaq lost 0.3% as investors took a breather on the day. The weekly gain was 0.6%. The Dow Jones was 0.2% higher on Friday and 0.9% up over the week.

The ASX 200 rose 0.4% on Friday but that wasn't enough to offset losses earlier in the week – the index was down 0.2% in weekly terms. Most sectors finished in the green on Friday. IT and consumer discretionary were the standouts – each rising more than 1%. Utilities and real estate were the only sectors to finish lower on Friday. Futures are pointing to a slightly positive open today.

Interest Rates: Bond yields fell across the curve, helped by comments from New York Fed President John Williams noting that the Fed will likely be in a position to cut rates later this year.

The US 2-year treasury yield fell 2 basis points, to 4.69%. The 10-year yield lost 7 basis points, to 4.25%.

Interest-rate markets are pricing a 79% chance of a cut by the June meeting, with a cut by the July meeting being fully priced. For 2024, markets are pricing around 82 basis points of cuts by the end of the year.

Australian bond yields largely followed the lead from US markets. The 3-year Australian government bond yield (futures) was 4 basis points lower, at 3.74%. The 10-year (futures) yield was down 6 basis points, to 4.15%. Markets are pricing the first cut from the RBA to be by September and price around 38 basis points of cuts by the end of the year.

Foreign Exchange: The US dollar traded in a narrow range on Friday against major currencies. The DXY Index ranged between a high of 104.05 and a low of 103.77, before closing at 103.96.

The AUD/USD was also relatively contained. It traded between a low of 0.6550 and a high of 0.6581. It was trading at 0.6556 at the time of writing.

Commodities: Oil and copper fell on Friday. Coal and gold were higher, while iron ore remained at US$120 per tonne.

Australia: There were no major data releases on Friday.

New Zealand: The volume of retail sales surprised to the downside in the December quarter. Real retail spending fell 1.9% in the quarter. This followed a 0.8% fall in the previous quarter (which was revised lower from an initial flat reading). The outcome was worst than the 0.2% fall expected by consensus and the downward revision to the previous quarter added to the downside miss.

14 of 15 industries reported declines in the quarter. In percentage terms, the largest fall were in recreational goods (-6.2%), accommodation (-4.8%), clothing & footwear (-4.0%), specialised foods (-3.7%), and fuel (-3.6%). Pharmaceutical (+0.3%) was the only industry group to record a quarterly rise.

Eurozone: Sentiment among businesses in Germany was broadly unchanged in February from its January reading. The German IFO business climate survey came in at 85.5 in February – in line with expectations and slightly higher than the 85.2 reading in January. Views on the current assessment, at 86.9, were unchanged from their January reading and slightly above expectations of 86.8. Views on expectations for the future improved to 84.1 in February, up from 83.5 in January and above expectations of 84.0.

However, despite the February outcome, confidence among businesses remains very weak as the outlook for the German and European economy remains a challenging one. The index has been below 100 for two and a half years, after falling below that level in September 2021.

United Kingdom: Consumer sentiment slipped in February, ending a run of three consecutive months of improvement. Sentiment fell to -21 in the month, down from -19 in January. This was below expectations, which centred on a continued improvement to -18 in the month. Consumer sentiment remain entrenched in negative territory as the economy faces challenges under the weight of elevated interest rates and after entering recession in late 2023. This is despite some data suggesting that the economy may have lifted out of this shallow recession as it entered 2024.

United States: New York Fed President John Williams noted that the Fed will likely be able to cut rates at some point in 2024, likely later in the year. He noted that his view on the economy hasn't changed after seeing the January data and that things are moving in the right direction, despite progress to the Fed 2% target being "a little bit bumpy".

He wasn't looking for progress on just one indicator to provide evidence that inflation is moving towards their goal – i.e. moving sustainably towards the 2% target. He noted that "I don't think there's any formula, or one indicator, or something that will tell you that. It's really looking at all the information together, including these signs in the labour market and others and extracting the signal."

Today's key data and events:

US Dallas Fed Index Feb exp -14.0 prev -27.4 (1:30am)

US New Home Sales Jan exp 3.0% prev 8.0% (2am)

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.

Jarek Kowcza, Senior Economist
Ph: +61 481 476 436

Contact Listing

Chief Economist
Besa Deda
dedab@stgeorge.com.au
+61 404 844 817

Senior Economist
Jarek Kowcza
jarek.kowcza@stgeorge.com.au
+ 61 481 476 436

Senior Economist
Pat Bustamante
pat.bustamante@stgeorge.com.au
+61 468 571 786

Economist
Jameson Coombs
jameson.coombs@stgeorge.com.au
+61 401 102 789