

Morning Report

Monday, 4 March 2024



Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,746	0.6%			Last	Overnight Chg		Australia		
US Dow Jones	39,087	0.2%	10 yr bond	4.13			-0.03	90 day BBSW	4.34	0.00
Japan Nikkei	39,911	1.9%	3 yr bond	3.67			-0.04	2 year bond	3.81	0.01
China Shanghai	3,173	0.4%	3 mth bill rate	4.33			0.00	3 year bond	3.71	0.01
German DAX	17,735	0.3%	SPI 200	7,728.0			11	3 year swap	3.89	-0.02
UK FTSE100	7,683	0.7%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.14	0.01
Commodities (close & change)			TWI	61.1	-	-	61.1	United States		
CRB Index	277.1	2.0	AUD/USD	0.6500	0.6534	0.6490	0.6523	3-month T Bill	5.22	-0.01
Gold	2,082.92	38.6	AUD/JPY	97.44	98.09	97.41	97.87	2 year bond	4.53	-0.09
Copper	8,438.50	11.5	AUD/GBP	0.5149	0.5165	0.5138	0.5154	10 year bond	4.18	-0.07
Oil (WTI futures)	79.97	1.7	AUD/NZD	1.0676	1.0699	1.0668	1.0689	Other (10 year yields)		
Coal (thermal)	136.00	3.8	AUD/EUR	0.6014	0.6031	0.6004	0.6018	Germany	2.41	0.00
Coal (coking)	306.00	-0.5	AUD/CNH	4.6841	4.7109	4.6811	4.7031	Japan	0.72	0.01
Iron Ore	114.20	1.0	USD Index	104.10	104.29	103.84	103.89	UK	4.11	-0.01

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: Investors upped their bets on rate cuts from the Fed after mixed economic data in the US. Treasury yields slipped across the curve, the US dollar softened and equities breached fresh record highs.

Share Markets: US equities finished the week strongly on Friday to close solidly in the green. The S&P 500 gained 0.8%, breaching a fresh record high, and closed the week up 1.0%. The NASDAQ also hit a record high, leaping 1.1% on Friday to finish the week up 1.7%. The Dow Jones rose a more muted 0.2% on Friday and finished the week slightly lower. The ASX 200 rose 0.6% on Friday, hitting a new record high. The local bourse gained 1.3% on the week.

Interest Rates: US treasury yields slipped across the curve on mixed economic data as traders upped expectations for Fed rate cuts. The policy sensitive 2-year yield fell 9 basis points to 4.53%, while the 10-year yield slipped 7 basis points to 4.18%.

Interest rate markets are pricing just over three and a half 25-basis point cuts from the Fed by the end of the year.

Yields in Aussie bond futures were also lower. The 3-year (futures) yield fell 4 basis points to 3.67%, while the 10-year (futures) yield was down 3 basis points to 4.13%.

Cash rate futures are fully pricing just one rate cut from the RBA by the end of the year, with around a

60% chance of a second cut.

Foreign Exchange: The US dollar softened as the US yield curve shifted down. The DXY index fell from a high of 104.29 to a low of 103.84 and is currently trading near that level.

The Aussie dollar strengthened on the back of the weaker USD, re-establishing itself towards the middle of its recent range. The AUD/USD pair rose from a low of 0.6490 to a high of 0.6534 and is currently trading around 0.6523.

Commodities: OPEC+ agreed to extend current oil supply curbs through to June. The extension was widely expected by investors, but nonetheless prompted a rise in oil futures. The Wet Texas Intermediate (WTI) futures contract rose to US\$79.97 per barrel.

Australia: Housing values posted a broad-based rise in February, increasing 0.6% in the month. This represented an acceleration on January's increase and was the strongest monthly gain since October last year.

Prices rose across each of the capital cities and rest-of-state regions with Perth (1.8%), Adelaide (1.1%) and Brisbane (0.9%) continuing to outperform. Growth accelerated in both Sydney (0.5%) and Melbourne (0.1%).

China: The February purchasing managers' index (PMI) pointed to a solid boost in services activity from the Lunar New Year holidays, though it's

unclear whether any strength can be sustained. The services PMI rose to 51.4 in February, eclipsing expectations for a reading of 50.7. This was the strongest reading since September.

The manufacturing PMI was less sanguine, edging down to 49.1 from 49.2 and remaining in contractionary territory for a fifth consecutive month. The Caixin manufacturing PMI, which is more heavily weighted towards smaller firms, was relatively stable at 50.9, around the level it has hovered for the past four months. Overall, manufacturing activity remains subdued, but it is at least not deteriorating further.

Eurozone: Inflation measures were a touch hotter than expected in February but were still indicative of rapidly slowing inflation pressures. Annual growth in the consumer price index (CPI) slowed to 2.6% in February, from 2.8% in January. The core measure, which excludes food and energy prices, rose 3.1% over the year to February, down from 3.3% in January but slightly higher than expectations for a 2.9% gain.

The unemployment rate edged down to 6.4% in January, after December's reading was revised up to 6.5% from 6.4%. This was the first fall in the unemployment rate in ten months and comes despite weakening economic activity in the region.

The manufacturing PMI was finalised slightly higher in February at 46.5 but remained in contractionary territory for a 20th consecutive month.

New Zealand: Consumer confidence rose 1.0% to 94.5 in February – its highest level since January 2022.

United Kingdom: The Nationwide house price index rose 0.7% in February, beating expectations for a 0.3% gain. The strong result matched January's solid growth rate providing evidence that the UK housing market may be gathering momentum. Growing expectations of interest rate cuts this year may be starting to lure buyers into the market.

The manufacturing PMI rose to 47.5 in February from 47.0 in January. Despite indicating contraction within the sector, February's reading was the strongest since April 2023, potentially reflecting a tentative stabilisation in conditions.

United States: US congressional leaders revealed a detailed agreement to keep large parts of the government funded through Sept. 30. It's hoped the agreement can be enacted before another shutdown deadline at the end of the week.

Construction spending fell 0.2% in January after an

upwardly revised 1.1% gain in December. Weakness was concentrated in the non-residential sector, in particular commercial office construction.

The University of Michigan consumer sentiment index was finalised at 76.9 in February, unchanged from the flash reading. Short-and-medium term inflation expectations were also unchanged at 3.0% and 2.9%, respectively.

The ISM manufacturing PMI eased in February, falling from 49.1 to 47.8. This poured cold water on signs from the S&P PMI that activity in the manufacturing sector may be staging recovering. The new-orders sub-index surprised materially to the downside, while a softening in the prices paid measure would be encouraging for policymakers.

The Kansas City Fed services index rose to 12 in February, jumping from a reading of -2 in January. This was the strongest reading since September 2022.

Today's key data and events:

NZ Terms of Trade Q4 prev -0.6% (8:45am)
 AU MI Inflation Feb y/y prev 4.6% (11am)
 AU Inventories Q4 exp -0.3% prev 1.2% (11:30am)
 AU Company Profits Q4 exp 4.2% prev -1.3% (11:30am)
 AU ANZ Job Ads Feb prev 1.7% (11:30am)
 AU Bld. Approvals Jan exp 3.0% prev -9.5% (11:30am)

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.

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