Morning Report

Friday, 1 March 2024

Equities (close & % change)		
S&P/ASX 200	7,699	0.5%
US Dow Jones	38,996	0.1%
Japan Nikkei	39,166	-0.1%
China Shanghai	3,161	1.9%
German DAX	17,678	0.4%
UK FTSE100	7,630	0.1%
Commodities (close & change)		
CRB Index	275.1	-0.2
Gold	2,043.71	9.2
Copper	8,427.00	41.3
Oil (WTI futures)	78.32	-0.2
Coal (thermal)	132.25	1.5
Coal (coking)	306.50	-1.8
Iron Ore	118.05	1.6

Sydney Futures Exchange (last & change)				
	Last		Overnight Chg	
10 yr bond	4.15		-0.01	
3 yr bond	3.70		0.00	
3 mth bill rate	4.33		0.00	
SPI 200	7,680.0		20	
FX Last 24 hrs	**Open**	**High**	**Low**	**Current**
TWI	61.1	-	-	61.1
AUD/USD	0.6496	0.6531	0.6487	0.6500
AUD/JPY	97.89	97.91	97.35	97.44
AUD/GBP	0.5131	0.5152	0.5128	0.5149
AUD/NZD	1.0654	1.0695	1.0646	1.0676
AUD/EUR	0.5994	0.6022	0.5989	0.6015
AUD/CNH	4.6863	4.7050	4.6781	4.6844
USD Index	103.93	104.20	103.66	104.10

Interest rates (close & change)		
Australia		
90 day BBSW	4.34	0.00
2 year bond	3.80	-0.03
3 year bond	3.70	-0.03
3 year swap	3.93	0.01
10 year bond	4.14	-0.03
United States		
3-month T Bill	5.22	-0.02
2 year bond	4.63	-0.01
10 year bond	4.26	-0.01
Other (10 year yields)		
Germany	2.41	-0.05
Japan	0.71	0.01
UK	4.12	-0.06

Data as at 8:30am AEDT. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Main Themes: The data on the Federal Reserve's preferred measure of inflation dominated market attention. The annual headline rate fell to a near 3-year low, supporting government bond prices and shares. However, the detail reveals some nuances that may keep the Fed's hand on the worry beads.

Share Markets: US share markets ended February on a high. The Dow lifted 0.1%, the S&P 500 rose 0.1% and the Nasdaq increased by 0.9%.

Interest Rates: US bond yields were little changed after the inflation report. The US 2-year yield dropped 1 basis point to 4.63% and the US 10-year yield also eased 1 basis point to close at 4.26%. Interest-rate markets are still pricing in between three and four rate cuts in the US this year. Locally, markets have a 90% probability attached to a rate cut by September this year.

Foreign Exchange: The US dollar index strengthened overnight including the Japanese yen, despite signals the Bank of Japan (BOJ) may soon end its negative rate policy. The AUD/USD experienced volatility, but in a narrow trading band of 0.6487 to 0.6531 and opened up this morning near the 0.6500 handle.

Commodities: Oil slid modestly amid general strength overnight in other commodity prices.

Australia: Private capital expenditure (capex) spending rose 0.8% in the December quarter and was 7.9% higher over calendar year 2023. In level terms, the volume of capex spending rose to its highest in eight years.

Private business capex spending, while still expanding over the second half of 2023, is transitioning from a period of strength. After growing at a robust pace of 3.3% in both the March and June quarters, spending slowed to 0.3% and 0.8% in the September and December quarters, respectively. This has coincided with the slowdown in economic growth as rapid rate hikes from the Reserve Bank (RBA) worked their way through the economy.

The (fifth) estimate for spending plans (adjusted for historical bias) suggests that capex will rise 10.0% in 2023-24. This is a modest upgrade from the 8.7% estimate in the previous quarter. Estimate one (which tends to be unreliable) for 2024-25 suggests slower growth of 6.8%.

Retail sales lifted by 1.1% in January of a 1.5% gain, as retail sales continue to move through a choppy period. The January lift follows a sharp 2.1% drop in December and a 1.5% surge in November. The pattern reflects difficulties the Australian Bureau of Statistics (ABS) is having adjusting for shifts in seasonal patterns associated with the increasingly popular 'Black Friday' sales. This volatility has concealed a material slowing over the past three months. On a three-month basis, the value of retail sales growth has slowed to 0.5% - not enough to keep pace with price inflation in the quarter.

Private sector credit rose at a modest rate of 0.4% in January, a continuation of the average monthly pace through 2023. This modest credit growth occurred in an environment of elevated interest rates and a sluggish economy, as well as an economy operating at a high level of capacity, with unemployment still near historic lows and a housing market where demand is outstripping limited supply. Annual credit growth rounded up from 4.8% in December to 4.9% for January.

Japan: The former monetary policy chief at the BOJ said overnight that the BOJ will probably wait until April before terminating negative rates.

United States: The personal consumption expenditure (PCE) measure of inflation eased to a near 3-year low of 2.4% in the year to January. The PCE is a metric that the Federal Reserve focusses on for its inflation target. The result matched consensus expectations and represents a fall from December’s annual rate of 2.6%.

The core rate for PCE, which excludes changes in food and energy prices, and is the Fed’s preferred measure of underlying inflation, was also in line with expectations at 2.8%.

However, on a month-on-month basis, the core measure reached 0.4% - the biggest monthly gain since last February and up from 0.1% in December. The equivalent rate for headline PCE was 0.3%, up from 0.1% in December but in line with expectations.

Fed officials are watching the supercore measure of the PCE, a measure which strips out energy and housing. The supercore measure jumped 0.6% last month, the most since March 2022, after rising 0.3% in December. In year-on-year terms, it lifted to 3.5%, from 3.3% in December. On an annualised basis over the past three months, the supercore inflation rate has risen at a 4.1% pace.

With inflation picking up, price-sensitive consumers slowed their spending last month. Consumer spending, which accounts for more than two-thirds of economic activity, rose 0.2% in January after increasing 0.7% in December. When adjusted for inflation, spending fell 0.1% after rising 0.6% in December. This data suggests that consumer spending moderated early in the first quarter after helping to power economic growth in the fourth quarter of 2023.

Spending remains supported by a tight labour market, although there are signs it is taking a bit longer for people who are unemployed to find new jobs. Workers filing for new unemployment benefits (i.e. initial jobless claims) rose 13,000 to 215,000 during the week of February 24. The claims remain consistent with a low level of job cutting, although there are rising signs that employers are cutting back on job hiring. The labour market continues to show remarkable resilience with an unemployment rate under 4%.

The Federal Reserve’s Loretta Mester told Yahoo Finance the report shows there’s more work to do and that three cuts this year feels about right.

Federal Reserve member Bostic repeated his view that it will probably be appropriate to begin cutting this summer based on his outlook for inflation: but there will be “some bumps along the way” to the 2% target.

Another Fed member Daly said “there is no imminent risk to the economy faltering” and that the Fed is “ready to make moves and adjust as the data demands” and that “it would be appropriate as inflation comes down to bring the nominal rate of interest down to make sure we’re not holding on even tighter”. He added that the Fed wants to avoid holding on all the way to 2%, making policy very tight and then possibly causing an unnecessary downturn.”

Another Fed member overnight, Goolsbee, said the question now is how long rates should remain restrictive.

The Chicago purchasing managers’ index (PMI) fell to 44.0 in February, below January’s result of 46.0 and under the consensus forecast of 48.0. The breakdown revealed both softer employment and production whilst there was a slight rise in prices paid.

The House passed a temporary funding bill to avert a partial US government shutdown, sending it to the Senate. It extends funds for some departments through March 8 and others to March 22 as lawmakers work out differences on delayed full-year spending packages.

Today's key data and events:

AU CoreLogic House Prices Feb prev 0.4% (12:01am)
NZ Consumer Confidence Feb prev 0.5% (8am)
AU Manufacturing PMI Feb prev 0.4% (9am)
CH Composite PMI Feb prev 50.9 (12:30pm)
CH Mfg PMI Feb exp 49.0 prev 49.2 (12:30pm)
CH Non Mfg PMI Feb exp 50.7 prev 50.7 (12:30pm)
CH Caixin PMI Mfg Feb exp 50.7 prev 50.8 (12:45pm)
UK N'wide House Prices Feb exp 0.3% prev 0.7% (6pm)
UK Mfg PMI Feb Final exp 47.1 prev 47.1 (8:30pm)
EZ Core CPI Feb Prel y/y exp 2.9% prev 3.3% (9pm)
EZ Unemployment Rate Jan exp 6.4% prev 6.4% (9pm)
US Mfg PMI Feb Final exp 51.5 prev 51.5 (1:45am)
US Construction Spending Jan exp 0.2% prev 0.9% (2am)
US UoM Cons. S'ment Feb Final exp 79.6 prev 79.6 (2am)
US ISM Index Feb (2am)
US Kansas City Fed Services Activity Feb prev -2 (3am)

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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