Morning Report

Friday, 23 February 2024

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Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,611	0.0%		Last		Overnight Chg		**Australia**		
US Dow Jones	39,069	1.2%	10 yr bond	4.19		0.02		90 day BBSW	4.34	0.00
Japan Nikkei	39,099	2.2%	3 yr bond	3.76		0.03		2 year bond	3.83	0.01
China Shanghai	3,133	1.3%	3 mth bill rate	4.33		0.02		3 year bond	3.74	0.01
German DAX	17,370	1.5%	SPI 200	7,608.0		37		3 year swap	3.97	0.01
UK FTSE100	7,684	0.3%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.16	-0.02
Commodities (close & change)			TWI	61.5	-	-	61.5	**United States**		
CRB Index	274.1	0.1	AUD/USD	0.6549	0.6595	0.6540	0.6556	3-month T Bill	5.24	0.00
Gold	2,024.63	-1.4	AUD/JPY	98.37	99.02	98.32	98.67	2 year bond	4.71	0.04
Copper	8,495.25	36.3	AUD/GBP	0.5184	0.5202	0.5173	0.5178	10 year bond	4.32	0.00
Oil (WTI futures)	78.45	0.5	AUD/NZD	1.0597	1.0611	1.0571	1.0575	**Other (10 year yields)**		
Coal (thermal)	124.75	0.7	AUD/EUR	0.6054	0.6072	0.6047	0.6058	Germany	2.44	-0.01
Coal (coking)	314.50	-0.5	AUD/CNH	4.7152	4.7447	4.7104	4.7217	Japan	0.72	-0.01
Iron Ore	120.90	1.2	USD Index	104.00	104.13	103.43	103.96	UK	4.11	0.00

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: Equity markets rocketed higher overnight, driven by a rally in Nvidia shares after stronger-than-expected earnings results after the close of markets yesterday. Key global leading indicators of economic activity were solid, contributing to higher bond yields, in addition to Fed speakers continuing to urge caution around the pace of rate cuts. The US dollar ended broadly unchanged, while the Aussie lifted slightly against the USD.

Share Markets: Stock markets surged to new record highs as the AI craze continued to gather pace after Nvidia's stronger-than-expected results yesterday. The tech-heavy Nasdaq was the standout as it surged 3.0% in one day. The S&P 500 also jumped ahead by 2.1% – its largest gain since January 2023. This meant the S&P 500 hit a new all-time high. Indeed, multiple all-time highs were hit, from the US, Europe, Japan and the MSCI ACWI Index – which is a broad cap-weighted index of developed and emerging market stocks. The Dow Jones also rose by a still impressive 1.2%.

The ASX 200 was flat yesterday. Futures are pointing to a strong open today, following the lead from US markets.

Interest Rates: Interest rates ended slightly higher at the short end and broadly unchanged at the longer end. The US 2-year treasury yield rose 4 basis points, to 4.71%. The 10-year yield was unchanged at 4.32%. Interest-rate markets are attaching an 85% chance of a Fed rate cut by June, with a cut fully priced by July. A total of 82 basis points of cuts are priced for 2024. This reflects a gradual easing from market pricing yesterday, where a June cut had a 90% probability attached to it and were a total of 87 basis points of cuts were priced for 2024.

Australian bond yields rose in line with the increase in US short-term rates. The 3-year Australian government bond yield (futures) was 3 basis points higher, at 3.76%. The 10-year (futures) yield rose 2 basis points, to 4.19%. A rate cut from the RBA is fully priced by September and around 44 basis points of cuts are priced for 2024.

Foreign Exchange: The US dollar ended broadly unchanged after initially falling to its lowest level since early February. The DXY rebounded from a low of 103.43 early in London trade to a high of 104.13 in the crossover between the London and New York sessions. It was trading at 103.96 at the time of writing.

The AUD/USD moved higher to a high of 0.6595 during the Asian session and the beginning of the London session on the back of a weaker USD. It later lost ground, hitting a low of 0.6540, before finishing a little above where it opened, at 0.6556.

Commodities: Oil was stronger on the day after data from the Energy Information Administration (EIA) showed that US oil inventories rose by less than expected in the latest weekly data, thereby supporting prices.

Iron ore was higher and held above US$120 per tonne. Copper and thermal coal were also up, while gold and coking coal slipped.

Australia: There were no major data releases yesterday.

New Zealand: The trade balance fell further into deficit in January. The trade deficit widened from a revised $368 million in December to $976 million in January.

Exports dropped a material 15.7% in the month and were 7.1% lower in annual terms. The monthly outcome included exports to China declining by 8.1%. Exports to the US (-31.7%), Australia (-26.7%), and Japan (-20.5%) were all also weaker in January.

Imports were also lower, down 5.0%, but not enough to offset the impact of falling exports.

Eurozone: Activity in the services sector surprised to the upside as the services purchasing managers index (PMI) rose to 50.0 in February – above expectations of 48.8 and up from a 48.4 reading in January. This suggests that services activity was neutral in the month, neither expanding nor contracting. This was the first reading at or above 50 since July 2023.

On the other hand, the manufacturing PMI surprised to the downside, printing at 46.1 in the month. This was a fall from 46.6 in the prior month and was below consensus expectations, which centred on a slight improvement to 47.0.

The picture painted is one of continued challenges in the manufacturing sector, as tight monetary policy continues to slow demand and manufacturing powerhouses such as Germany are impacted by weak demand from China and other parts of the globe. Indeed, the German manufacturing PMI printed a very weak 42.3 – well below expectations of 46.0 and down from 45.5 in the previous month. On the positive side, activity in the services may be showing early signs of stabilising. Price and wage pressures were noted in the report.

United Kingdom: Services sector activity was robust in February, with the services PMI printing at 54.3 – unchanged from its January reading. The services sector has now been in expansionary territory for four consecutive months. The outcome was slightly strong than the 54.1 expected by consensus.

Manufacturing activity remained weak, in contraction at 47.1. This was a slight improvement from the 47.0 in January but below expectations of 47.5.

Robust activity in the services sector suggests that the economy may be able to come out of the recession that it entered at the end of 2023 in Q1 of 2024. The report noted some rising price pressures, in addition to improvement in sentiment.

United States: In contrast to other key developed economies, activity in both the manufacturing and services sectors in the US economy expanded in February. The manufacturing PMI printed at 51.5 while services was at 51.3. The manufacturing outcome was stronger than expected and up on the January reading – both 50.7. Indeed, the result sees the manufacturing PMI rising to its highest level since September 2022.

Services was slightly weaker than the 52.3 expected and down from 52.5 in January. Both measures continue to suggest economic resilience in the world's largest economy. The report detail noted moderation in employment growth, while cost pressures and supply chain issues were also easing.

Existing home sales rose 3.1% in January, up from a 0.8% fall in the prior month. The outcome was below expectations of 4.9%. While monthly growth was weaker than expected, the absolute number of new home sales in the month was stronger as the previous month was revised higher. The median home price rose 5.1% in annual terms to $379,100.

The Chicago Fed national activity index slipped to -0.30 in January, down from an upwardly revised 0.02 in January. The outcome was below expectations of -0.21 and suggests that economic growth was below trend in January.

FOMC Vice-Chair Philip Jefferson urged caution regarding rate cuts and noted that reducing rates too quickly could undermine the progress the Fed has made on getting inflation down. He spoke of the need for officials to be mindful of the long and variable lags in monetary policy when moving interest rates lower.

Today's key data and events table overleaf

Today's key data and events:

EU Ger IFO Business Climate Survey Feb exp 85.5 prev 85.2 (8pm)

NZ Retail Sales Volumes Q4 exp -0.2% prev 0.0% (8:45am)

UK GfK Consumer Sentiment Feb exp -18 prev -19 (11:01am)

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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