

Morning Report

Tuesday, 12 March 2024

| Equities (close & % change) | | | Sydney Futures Exchange (last & change) | | | | | Interest rates (close & change) | | | |
|---|----------|-------|---|------|-------------|----------------------|---------|---------------------------------|-------------------------------|-------|------|
| S&P/ASX 200 | 7,704 | -1.8% | | | Last | Overnight Chg | | Australia | | | |
| US Dow Jones | 38,770 | 0.1% | 10 yr bond | | 3.99 | 0.03 | | 90 day BBSW | 4.35 | 0.00 | |
| Japan Nikkei | 38,820 | -2.2% | 3 yr bond | | 3.60 | 0.02 | | 2 year bond | 3.73 | 0.02 | |
| China Shanghai | 3,217 | 0.7% | 3 mth bill rate | | 4.23 | 0.01 | | 3 year bond | 3.59 | -0.02 | |
| German DAX | 17,746 | -0.4% | SPI 200 | | 7,719.0 | 5 | | 3 year swap | 3.82 | 0.00 | |
| UK FTSE100 | 7,669 | 0.1% | FX Last 24 hrs | Open | High | Low | Current | 10 year bond | 3.97 | 0.02 | |
| Commodities (close & change) | | | TWI | | 61.7 | - | - | 61.7 | United States | | |
| CRB Index | 278.0 | 1.4 | AUD/USD | | 0.6625 | 0.6628 | 0.6597 | 0.6613 | 3-month T Bill | 5.24 | 0.01 |
| Gold | 2,182.75 | 3.8 | AUD/JPY | | 97.43 | 97.54 | 96.90 | 97.18 | 2 year bond | 4.54 | 0.06 |
| Copper | 8,571.00 | 70.7 | AUD/GBP | | 0.5152 | 0.5163 | 0.5142 | 0.5161 | 10 year bond | 4.10 | 0.02 |
| Oil (WTI futures) | 77.93 | -0.1 | AUD/NZD | | 1.0714 | 1.0736 | 1.0700 | 1.0720 | Other (10 year yields) | | |
| Coal (thermal) | 133.35 | -3.2 | AUD/EUR | | 0.6052 | 0.6059 | 0.6037 | 0.6053 | Germany | 2.30 | 0.04 |
| Coal (coking) | 295.00 | -5.0 | AUD/CNH | | 4.7700 | 4.7731 | 4.7397 | 4.7485 | Japan | 0.76 | 0.02 |
| Iron Ore | 107.45 | 0.2 | USD Index | | 102.75 | 102.93 | 102.64 | 102.85 | UK | 3.97 | 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: US inflation expectations data overnight suggested the US Federal Reserve may take longer to start cutting rates. It comes ahead of a key US inflation report due tonight.

Share Markets: US share markets were little changed overnight at the close, as equity traders await fresh inflation data to be published tonight in the US. The Dow rose 0.1% and the S&P 500 fell 0.1%. The tech bellwether, the Nasdaq, experienced sharper movements, dropping 0.4% at the close.

In other markets, there was a sharp drop in Japan's share market. The Nikkei Topix dropped 2.2% after revised GDP data showed the economy did not contract in the last quarter of 2023. This shortened bets that the Bank of Japan (BoJ) would soon drop its negative interest rate policy.

Interest Rates: US bond yields finished higher with the US 2-year yield closing 6 basis points up and the 10-year yield rising by 2 basis points, leading to a curve steepening. Interest-rate markets lengthened the odds of a near term rate cut from the Fed after the US inflation expectations data.

Foreign Exchange: The US index was firmer in overnight trade after US inflation expectations data suggested the US Federal Reserve may have to wait longer to start cutting the fed funds rate. Of most interest is the USD/JPY pair after yesterday's Japanese data. USD/JPY traded in a very volatile manner within a tight trading range of 146.49 –

147.16. AUD/JPY was also volatile but has continued to trend lower since February 23.

Commodities: The US Department of Agriculture (USDA) reported that China cancelled purchases of 264,000 metric tons of US soft red winter wheat. The cancellation total over three straight sessions reached 504,000 tons, the most since 1999.

Iron ore fell under US\$110 a mark for the first time since October 2023 after China's annual NPC offered few prospects of a boost to demand. Ore stockpiles at the nation's ports lifted to the highest in a year.

Australia: There were no major economic data releases yesterday domestically.

Japan: Fresh data yesterday showed its economy escaped a recession at the end of 2023. Gross domestic product (GDP) expanded at an annualised rate of 0.4% in the final quarter of last year, a revision from the 0.4% decline initially reported. It was, however, below economists' consensus forecast for growth of 1.1%. The data comes ahead of next week's Bank of Japan meeting on March 18-19 where the timing of the first rate hike may be considered. Consensus among economists surveyed in a Bloomberg poll expect negative interest rates to be scrapped on March 19 or next month.

Ahead of the BoJ meeting, the annual pay negotiations between companies and labour unions will be eyed. The constituents of the union

federation have asked for an average raise of 5.85%, which would be the biggest pay hike since the early 1990s. It compares with demands for a rise of 4.49% last year. BoJ's Governor Ueda has repeatedly cited the importance of wage negotiations for sustaining inflation at the target.

United States: A New York Federal Reserve survey revealed consumers increasingly doubt the US Federal Reserve can achieve its inflation goals any time soon. While the outlook over the next year was unchanged at 3%, that wasn't the case for the longer term. At the three-year range, expectations rose 0.3 percentage points to 2.7% and the five-year outlook jumped 0.4 percentage points to 2.9%.

All three measures are well ahead of the Fed's 2% inflation target, indicating there's a risk that the Fed may need to keep policy tighter for longer.

The inflation report released tonight in the US will be a critical factor to the Fed's path on policy.

US President Joe Biden last night unveiled his US\$7.3 trillion fiscal 2025 budget proposal. It laid out a second-term vision that would deliver more services, middle-class tax breaks and price controls funded through higher taxes on wealthy households and corporations.

Today's key data and events:

NZ Card Spending Feb prev 2.0% (8:45am)
JN Producer Prices Feb exp 0.1% prev 0.0% (10:50am)
JN BSI Large All Industry Q1 prev 4.8 (10:50am)
AU NAB Business Survey Feb (11:30am)
Confidence Index prev +1
Conditions Index prev +6
UK ILO Unem. Rate Jan 3Mths exp 3.8% prev 3.8% (6pm)
UK Avg Weekly Earnings Jan 3 Mths y/y Jan exp 5.7%
prev 5.8% (6pm)
US NFIB Small Biz Optimism Feb exp 90.5 prev 89.9
(9pm)
US Consumer Price Index (CPI) Feb (11:30pm)
CPI m/m exp 0.4% prwev 0.3%
CPI y/y exp 3.1% prev 3.1%
Core CPI m/m exp 0.3% prev 0.4%
Core CPI y/y exp 3.7% prev 3.9%

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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