Morning report

Bank of Melbourne

Monday, 19 February 2024

Equities (close & % change)			Sydney Futures Exchange (last & change)					Interest rates (close & change)		
S&P/ASX 200	7,658	0.7%		Last		Overnight Chg		**Australia**		
US Dow Jones	38,628	-0.4%	10 yr bond	4.22		0.02		90 day BBSW	4.34	-0.01
Japan Nikkei	38,487	0.9%	3 yr bond	3.78		0.01		2 year bond	3.86	0.05
China Shanghai	3,004	1.3%	3 mth bill rate	4.31		0.00		3 year bond	3.78	0.05
German DAX	17,117	0.4%	SPI 200	7,607.0		8		3 year swap	3.99	0.05
UK FTSE100	7,712	1.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	4.19	0.06
Commodities (close & change)			TWI	60.8	-	-	60.8	**United States**		
CRB Index	272.6	1.3	AUD/USD	0.6523	0.6545	0.6496	0.6531	3-month T Bill	5.22	-0.01
Gold	2,013.59	9.2	AUD/JPY	97.82	98.26	97.70	98.10	2 year bond	4.64	0.07
Copper	8,410.25	186.0	AUD/GBP	0.5178	0.5190	0.5172	0.5179	10 year bond	4.28	0.05
Oil (WTI futures)	79.19	1.2	AUD/NZD	1.0683	1.0703	1.0648	1.0659	**Other (10 year yields)**		
Coal (thermal)	122.75	-1.0	AUD/EUR	0.6056	0.6069	0.6047	0.6058	Germany	2.40	0.04
Coal (coking)	316.00	-0.5	AUD/CNH	4.7072	4.7194	4.6922	4.7114	Japan	0.74	0.00
Iron Ore	130.60	-0.7	USD Index	104.28	104.67	104.17	104.28	UK	4.11	0.05

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: A stronger than expected outcome for US wholesale inflation has led to concerns that US inflation may prove more persistent than expected. US share markets ended lower and US bond yields rose ahead of a US public holiday.

Share Markets: A five-week winning streak for the US S&P 500 benchmark came to an end, as investors renewed their concerns about sticky inflation. It followed in the wake of stronger than expected inflation data in the wholesale pipeline on Friday. The S&P 500 finished 0.5% weaker on Friday and was 0.4% weaker for the week.

Interest Rates: US bond yields rose on Friday, as producer prices data printed above market expectations. It follows in the wake of consumer prices data last week, which was also surprisingly firm. It has led to interest-rate markets pushing out their expectations for the start of a rate-cutting cycle in the US. The US 2-year yield rose 7 basis points and the 10-year yield lifted 5 basis points. The probability attached to a rate hike at the Federal Reserve's March meeting is just 12% and the probability attached to the May meeting is 28% (on current pricing).

Foreign Exchange: The AUD/USD exchange rate was hostage to USD index movements. The USD index shot up after the producer prices data hit the printing press, but those gains were soon unwound. The AUD/USD fell from a Friday night high of 0.6545 to a low of 0.6496, before recovering.

Commodities: Oil prices firmed up, as tensions in the Middle East continued.

Australia: There was no major economic data released on Friday. But the first of Taylor Swift's concert series in Australia kicked off. She performed at the MCG to the biggest crowd of her career – 96,000! Melbourne was impressive and so was the crowd! Spending on discretionary areas of clothing (eras outfits), footwear (sparkly boots), jewellery (including friendship bracelets), accommodation and transport is likely to be sharply boosted this month before Taylor Swift moves the mania to another part of the world. Jobs are also likely to have received a bump, as casual staffing lifts to cope with the influx of tourists from outside of Melbourne and Sydney.

China: The People's Bank of China held steady, keeping its one-year MLF loan rate at 2.5% as it sought to shield the Chinese yuan from volatility. Officials also injected 1 billion yuan (around US$139 million) into the financial system. Both moves were in line with market expectations.

United States: Producer prices rose by more than expected in January, which suggests to the US Federal Reserve that inflation may be proving more persistent than anticipated. The producer price index (PPI) in final demand terms rose by 0.3% in the month following a decline of 0.1% in December

and versus consensus forecasts for a rise of just 0.1%. In core terms, producer prices (excluding food and energy) jumped 0.5% in January and consensus had expected monthly growth of only 0.1%. It meant the annual rate rose to 2.0%, from 1.7% previously.

Housing starts collapsed 14.8% last month to a 1.331 million annualised rate, after an upward revision to the prior month. Multi-family home construction plummeted by more than 35% after surging in the prior month, while single-family groundbreakings also slowed. The headline figure was the slowest pace in five months.

Building permits, a proxy for future construction, decreased to a 1.5 million rate. Permits for one-family homes edged higher after rising consistently throughout 2023, and multifamily authorisations fell 7.9%, the most since September.

The New York Fed Services Business Activity index improved to -7.3 in February, from -9.7 in January.

The preliminary University of Michigan consumer sentiment survey showed a slight improvement in February. The headline index rose to 79.6, from 79.0. The consensus forecast was for an outcome of 80.0.

The survey's reading of one-year inflation expectations edged up to 3.0% this month from 2.9% in January. The survey's five-year inflation outlook was unchanged at 2.9% for the third straight month.

Today's key data and events:

NZ Performance of Services Index Jan prev 48.8 (8:30am)
UK Rightmove House Prices Feb prev 1.3% (11:01am)
US National Holiday

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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