FED:Inflation readout weighs heavily on Australian shares

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Body

The local share market has suffered its biggest drop in more than a month after official statistics showed inflation has picked up, raising doubts about whether domestic rate cuts will occur at all this year.

The S&P/ASX200 index on Wednesday dropped 101.1 points, or 1.3 per cent, to a nearly four-week closing low of 7,665.6.

The broader All Ordinaries dropped 99.2 points, or 1.23 per cent, to 7,935.7.

The ASX200 was already well in the red but fell another 22 points in the space of two minutes after the Australian Bureau of Statistics reported consumer prices rose 3.6 per cent in the 12 months to April, the second straight-month inflation has shown a small increase.

Inflation had been 3.5 per cent in the year to March and consensus expectations among economists were for it to cool to 3.4 per cent in the April report.

Betashares chief economist David Bassanese said the sticky inflation readout would test the Reserve Bank's patience and made a rate cut before Christmas unlikely.

"Indeed, there's a simmering risk that the RBA may feel obligated to raise rates further to reduce inflation in those demand-sensitive areas it can influence," he wrote, putting the odds of such a hike at around 30 to 40 per cent.

Saxo head of FX strategy Charu Chanana said the readout could give RBA reason to postpone rates cuts, but was unlikely to bring rate hikes back on the table given the loosening of the Australian labour market and stretched consumers.

Still, the money market's implied odds of an RBA rate hike in September rose from 12 per cent to 20 per cent following the report, according to CommSec economist Ryan Felsman.

"Traders now think that rate cuts are off the table until at least the middle of 2025," Mr Felsman wrote.

All of the ASX's 11 sectors finished lower, with eight of them dropping more than one per cent.

Consumer staples were the biggest loser, falling 2.1 per cent as Coles dropped 2.0 per cent and Treasury Wine Estates shed 4.5 per cent.

All four of the big retail banks finished lower, with ANZ dropping 2.5 per cent to $27.87, NAB falling 1.8 per cent to $33.65, Westpac retreating 2.4 per cent to $26.01 and CBA slipping 1.6 per cent to $118.34.

In the heavyweight mining sector, Fortescue dropped 3.6 per cent to $25.57 and Rio Tinto subtracted 1.5 per cent to $129.66, while BHP was flat at $45.08.

After the market closed, BHP announced it was asking for more time to negotiate with Anglo American over its $74 billion tentative takeover offer and emphasised its willingness to maintain and build on Anglo American's legacy of social investment in South Africa.

In the gold sub-sector, Westgold rose 6.5 per cent to $2.29 and ***Ramelius*** dropped 7.3 per cent to $1.91 after a Takeovers Panel application revealed the two mid-tier miners had been in merger talks, which apparently soured after Westgold agreed to acquire Toronto-listed Karora ***Resources***.

In health care, Fisher & Paykel rose 3.7 per cent to a nearly two-week high of $26.39 after the Auckland-based respiratory products company said it had grown revenue by 10 per cent to $NZ1.74 billion ($1.6 billion) in the 12 months to March 31.

"After several years of changing demand patterns, we are pleased to have returned to a trajectory of growth," managing director and chief executive Lewis Gradon said.

The Australian dollar was buying 66.58 US cents, from 66.61 US cents at Tuesday's ASX close.

ON THE ASX:

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CURRENCY SNAPSHOT:

One Australian dollar buys:

* 66.58 US cents, from 66.61 US cents at Tuesday's ASX close
* 104.56 Japanese yen, from 104.50 Japanese yen
* 61.33 Euro cents, from 61.25 euro cents
* 52.14 British pence, from 52.15 pence
* 108.40 NZ cents, from 108.10 NZ cents

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