

7 May 2024

# MORNING REPORT

Today's economic developments and market movements.

## Key themes

US equities surged overnight, extending Friday's gains, and marking the best three-day rally of the year. The gains were fuelled by renewed hopes the US Fed will cut rates before the end of 2024.

More broadly, movements in overnight trade were fairly muted given the lack of new top tier economic data. The US dollar and treasuries were broadly unchanged.

The Aussie advanced ahead of the Reserve Bank's cash rate announcement later today. Markets have attached virtually no chance of a rate hike at today's meeting but continue to price around a 40% chance of another hike later this year.

## Data snapshot

FX Last 24 hrs	Current	Change
TWI	62.6	0.5%
AUD/USD	0.6623	0.2%
AUD/JPY	101.94	0.8%
AUD/GBP	0.5272	0.1%
AUD/NZD	1.1022	0.3%
AUD/EUR	0.6151	0.2%
AUD/CNH	4.7778	0.5%
AUD/SGD	0.8944	0.3%
AUD/HKD	5.178	0.3%
AUD/CAD	0.9051	0.1%
EUR/USD	1.0768	0.1%
USD/JPY	153.89	0.6%
USD Index	105.10	0.1%

Equities	Close	Change
S&P/ASX 200	7,682	0.7%
S&P 500	5,181	1.0%
Japan Nikkei	38,236	-0.1%
Hang Seng	18,578	0.6%
Euro Stoxx 50	4,957	0.7%
UK FTSE100	8,213	0.5%
VIX Index	13.49	0.0%

Commodities	Current	Change
CRB Index	287.61	0.4%
Gold	2323.97	1.0%
Copper	9799.03	1.5%
Oil (WTI futures)	78.48	0.5%
Coal (thermal)	255.00	0.8%
Coal (coking)	146.10	0.3%
Iron Ore	119.45	2.0%
ACCU	33.33	-1.1%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.36	0.00
90 day BBSY	4.46	0.00
180 day BBSY	4.73	0.01
1 year swap	4.46	0.03
2 year swap	4.32	0.01
3 year swap	4.23	0.02
4 year swap	4.20	0.01
5 year swap	4.22	0.01
6 year swap	4.27	0.00
7 year swap	4.32	0.00
8 year swap	4.38	0.00
9 year swap	4.43	0.00
10 year swap	4.60	-0.01

Government Bond Yields	Close	Change
<b>Australia</b>		
3 year bond	4.03	-0.01
10 year bond	4.38	-0.04
<b>United States</b>		
3-month T Bill	5.24	0.00
2 year bond	4.83	0.01
10 year bond	4.49	-0.02

Other (10 year yields)		
Germany	2.50	-0.05
Japan	0.90	0.00
UK	4.22	0.00

Sydney Futures Exchange	Current	Change
10 yr bond	4.39	0.00
3 yr bond	4.03	0.01
3 mth bill rate	4.45	0.01
SPI 200	7,734	0.5%

Data as at 7:30am AEDT. Change is from the previous trading day (excluding the SFE, which is the change during the night session). **Source:** Bloomberg.



**Pat Bustamante**  
 Senior Economist, Westpac Group  
 P: +61 468 571 786  
 E: pat.bustamante@westpac.com.au

### Share markets:

US equities surged overnight on renewed hopes of cuts to interest rates and solid first-quarter earnings reports.

The softer than expected jobs report from last week helped fuel speculation that the Fed will be able to cut rates this year.

Bloomberg is reporting that of the 80% of S&P 500 companies that have so far reported results this quarter, around 81% are beating profit estimates by a median of at least 7%.

The S&P 500 rose 1.0%. The tech-heavy Nasdaq closed 1.2% higher, while the Dow Jones closed 0.5% higher.

The ASX 200 closed 0.7% higher. Eight of eleven sectors were higher, led by financial stocks. Futures are pointing to a positive open today.

### Interest rates:

US treasury yields were broadly unchanged after falling in yesterday's session. The 2-year bond yield increased by 1 basis point to 4.83%. The 10-year treasury yield declined by 2 basis points to 4.49%.

Interest-rate markets are pricing a full rate cut by November. For 2024, the market is pricing in around 49 basis points of cuts – slightly less than two 25-basis-point moves.

Australian yields were also broadly unchanged. The 3-year government bond yield (futures) increased by 1 basis point to 4.03%. The 10-year (futures) yield was also 1 basis points higher, at 4.39%.

Interest-rate markets are still pricing in around a 40% chance of another rate hike from the RBA. Markets have priced in virtually no chance that the Reserve Bank Board will announce an increase in rates today.

### Foreign exchange:

The US dollar was broadly unchanged overnight. The DXY index traded within a narrow range, moving from a high of 105.20 to a low of 104.87, before settling at 105.10.

The Aussie was higher supported by strong commodity prices and expectations that the Reserve Bank's messaging will become more

### Today's key data and events

Time	Event	Exp	Prev
11:30am	AU Real Retail Sales Q1	0.1%	0.3%
2:30pm	AU RBA Cash Rate Target	4.35%	4.35%
	AU RBA SoMP		
4pm	EZ Ger. Factory Orders Mar	0.4%	0.2%
7pm	EZ Retail Sales Mar	0.7%	-0.5%
5am	US Consumer Credit Mar	\$15.0bn	\$14.1bn

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.

hawkish. This would help confirm market pricing that has pushed out rate cuts to next year.

The AUD/USD moved from a low of 0.6605 to a high of 0.6683. The pair is currently trading at 0.6623.

### Commodities:

Commodities were generally higher. The West Texas Intermediate (WTI) futures is currently sitting at around US\$78.48 per barrel.

### Australia:

Job advertisements rose 2.8% over the month of April, the first increase in three months. Job Ads have fallen 14.3% from their peak in November 2022. However, job ads are 36.5% higher than pre-pandemic levels.

The Melbourne Institute's monthly inflation gauge increased 0.1% in April, to be 3.7% higher in annual terms. The underlying measure (excludes volatile items) increased 0.2% in monthly terms to be 3.2% higher in annual terms - this was down from the 3.8% recorded in March 2024.

### China:

The Caixin services PMI edged lower to 52.5 index points in April, from 52.7 points in March. This was in line with market expectations. The PMI has now been in expansionary territory for the past 16 months. New orders accelerated due to improved demand conditions and a broadening of customer bases, with foreign sales rising strongly.

### Euro Zone:

Producer or wholesale prices declined 7.8% over the year to March, following a revised 8.5% fall recorded in February. The outcome was broadly in line with the decline of 7.7% expected by the market. In annual terms, energy prices declined by 20%, while costs for intermediate goods went down by 4.8%. On a monthly basis, producer prices declined by 0.4%, also in line with market expectations.

## **United States:**

US Fed committee member, John Williams, said rates will eventually come down, but didn't give a timeframe. He said "moving in the direction we want to see both on inflation in terms of restoring balance to the economy and then we'll make our decisions based on that".

Thomas Barkin, president of the Federal Reserve Bank of Richmond, voiced optimism that restrictive policy will bring inflation back to the central bank's 2% target. He said "I am optimistic that today's restrictive level of rates can take the edge off demand in order to bring inflation back to our target. The full impact of higher rates is yet to come."



# Authors

## Westpac Economics

**Besa Deda**

M: +61 404 844 817

E: [besa.deda@westpac.com.au](mailto:besa.deda@westpac.com.au)

**Pat Bustamante**

M: +61 434 856 909

E: [pat.bustamante@westpac.com.au](mailto:pat.bustamante@westpac.com.au)

**Jarek Kowcza**

M: +61 481 476 436

E: [jarek.kowcza@westpac.com.au](mailto:jarek.kowcza@westpac.com.au)

**Jameson Coombs**

M: +61 401 102 789

E: [jameson.coombs@westpac.com.au](mailto:jameson.coombs@westpac.com.au)



 [westpaciq.com.au](http://westpaciq.com.au)

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