

8 May 2024

MORNING REPORT

Today's economic developments and market movements.

Key themes

A lack of top tier international data kept market moves largely in check overnight.

The S&P 500 eked out a slim gain, extending the string of increases to a fourth straight session.

The short-end of the treasury yield curve was little changed as comments from the Fed's Neel Kashkari did little to shift the dial on market pricing for rate cuts.

The US dollar gained against every G-10 currency and looks to be establishing a new range after the Fed's measured response to stalling inflation progress.

The RBA didn't live up to market expectations that it would reinstate its hiking bias. Instead opting to retain flexibility in the contest of weak domestic demand.

The RBA's rhetoric pushed local bond yields lower, while the Aussie dollar rally hit a wall.

Data snapshot

FX Last 24 hrs	Current	Change	AUS Interest Rate Swaps	Last	Change
TWI	62.5	-0.2%	30 day BBSY	4.37	0.01
AUD/USD	0.6598	-0.4%	90 day BBSY	4.47	0.01
AUD/JPY	102.03	0.1%	180 day BBSY	4.74	0.02
AUD/GBP	0.5275	0.0%	1 year swap	4.38	-0.09
AUD/NZD	1.0994	-0.3%	2 year swap	4.22	-0.10
AUD/EUR	0.6135	-0.3%	3 year swap	4.10	-0.13
AUD/CNH	4.7671	-0.3%	4 year swap	4.07	-0.13
AUD/SGD	0.8936	-0.2%	5 year swap	4.09	-0.13
AUD/HKD	5.1604	-0.4%	6 year swap	4.14	-0.12
AUD/CAD	0.9056	0.0%	7 year swap	4.20	-0.12
EUR/USD	1.0755	-0.1%	8 year swap	4.25	-0.12
USD/JPY	154.64	0.5%	9 year swap	4.30	-0.13
USD Index	105.36	0.3%	10 year swap	4.50	-0.10

Equities	Close	Change	Government Bond Yields	Close	Change
S&P/ASX 200	7,793	1.4%	Australia		
S&P 500	5,188	0.1%	3 year bond	3.92	-0.11
Japan Nikkei	38,835	1.6%	10 year bond	4.31	-0.07
Hang Seng	18,479	-0.5%	United States		
Euro Stoxx 50	5,016	1.2%	3-month T Bill	5.23	0.00
UK FTSE100	8,314	1.2%	2 year bond	4.83	0.00
VIX Index	13.23	-1.9%	10 year bond	4.46	-0.03
			Other (10 year yields)		
Commodities	Current	Change	Germany	2.42	-0.05
CRB Index	289.57	0.7%	Japan	0.87	-0.03
Gold	2314.10	-0.4%	UK	4.13	-0.10
Copper	9903.79	1.1%			
Oil (WTI futures)	78.38	-0.1%	Sydney Futures Exchange	Current	Change
Coal (thermal)	253.00	-0.8%	10 yr bond	4.29	-0.03
Coal (coking)	146.60	0.4%	3 yr bond	3.92	0.01
Iron Ore	118.05	-1.2%	3 mth bill rate	4.38	-0.01
ACCU	33.33	-1.1%	SPI 200	7,828	0.2%

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.



Jameson Coombs
Economist, Westpac Group
P: +61 401 102 789
E: jameson.coombs@westpac.com.au

Share markets:

The S&P 500 eked out a fourth straight gain, rising 0.1%. The NASDAQ recorded a 0.1% fall.

Equities were more lively in Europe. The Euro Stoxx 50 and the London FTSE 100 rose 1.2%, while the German DAX climbed 1.4%.

The ASX 200 jumped 1.4% yesterday, supported by RBA rhetoric that was less hawkish than some expected. Futures were up a further 0.2% overnight.

Interest rates:

The US 2-year treasury yield was unchanged at 4.83% after briefly slipping to 4.80%. The 10-year yield fell 3 basis points to 4.46%, a near 4-week low.

Market pricing has the first Fed rate cut fully priced in for November, the implied odds of a second cut by the end of the year is sitting around 70%.

Aussie bond futures were mixed overnight. The 3-year futures yield rose 1 basis points to 3.92%, while the 10-year futures yield fell 3 basis points to 4.29%. Physical bond yields traded sharply lower yesterday following soft retail data and the array of RBA commentary.

Interest rate markets pared by the probability of additional rate hikes and are pricing in an extended period of unchanged rates.

Foreign exchange:

The US dollar strengthened, gaining against every G-10 currency. The DXY rose from a low of 105.03 to a high of 105.45 and is currently trading around 105.36.

The Aussie dollar's rally came to a screeching halt after the RBA's softer than expected rhetoric. The AUD/USD slipped from a high of 0.6644 to a low of 0.6587 and is currently trading around 0.6598. While the Aussie is still holding onto most of the run up from April's low of 0.6363, a run of stronger domestic data or weak US data is likely needed to see the Aussie take another leg higher.

The Euro finished lower after having a brief look at 1.0790. The EUR/USD ran out of puff at 1.0787 before falling to an intra-day low of 1.0748, only slightly below where it is currently trading. The Japanese yen continued its gradual slide lower, the USD/JPY trading between

Today's key data and events

Time	Event	Exp	Prev
4pm	EZ Ger. Industrial Production Mar	-0.7%	2.1%

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.

153.86 and 154.75. The British Pound similarly lost some ground, easing from a high of 1.2571 to a low of 1.2501.

Commodities:

Commodity prices were broadly lower overnight. Gold (-0.4%), oil (-0.1%) and iron (-1.2%) ore all slipped, while copper bucked the trend gaining 1.1%.

Australia:

As expected, the RBA Board left the cash rate target unchanged at 4.35% but strengthened its rhetoric around upside inflation risks. The statement highlighted that inflation is declining, but more slowly than expected and the Bank's forecasts were updated to reflect recent inflation surprises.

In the media conference, the Governor emphasised that the Board is trying to get inflation down in good time to ensure inflation expectations remain well anchored, while not going so fast that they tip the economy into recession. The Governor said it is hoped that they will not need to raise rates further, but they will act if needed. As expected, the statement retained a neutral bias with the Board "not ruling anything in and not ruling anything out".

Our house view is that the most likely outcome is unchanged rates for a period, but further upside surprises will change the calculus.

Retail sales volumes fell 0.4% in the March quarter, the fifth quarterly fall in the past six quarters. Retail sales volumes were 1.3% lower in annual terms as the discretionary side of the economy remains under significant pressure.

The 2024-25 Victorian budget provided additional cost of living support to households while also balancing the need to ensure the disinflationary process continues. The government will provide every public school student in the state with a 400 credit to help with education related expenses. The government has also delayed a number of infrastructure projects.

Notwithstanding these changes, the net operating deficit deteriorated by over a billion dollars in 2024/25, while improving in the outer years of the forwards. Net debt is forecast to increase and peak at above 25% of gap.

Euro Zone:

German factory orders slipped 0.4% in March, while February's 0.2% gain was revised down sharply to a 0.8% fall. The surprise fall in orders points to persistent weakness in the industrial sector, even as the wider-economy stages a mild rebound.

Retail sales rose 0.8% in March, more than offsetting the upwardly revised 0.3% fall in February. In annual terms, retail sales were 0.7% higher, the first annual increase since September 2022.

United States:

Minneapolis Fed President, Neel Kashkari, said that he expects the Fed to need to hold rates steady for an extended period. However, Kashkari did not rule out the possibility of another hike, highlighting the risk that policy settings are not as tight as officials suspect.

Consumer credit rose \$6.3bn in March, the smallest increase this year as households relied less on credit card debt. If sustained, the slowdown in credit growth could be a positive sign for the health of the US consumer, especially as pandemic-era savings wane and the spending pulse remains solid.



Authors

Westpac Economics

Besa Deda

M: +61 404 844 817

E: besa.deda@westpac.com.au

Pat Bustamante

M: +61 434 856 909

E: pat.bustamante@westpac.com.au

Jarek Kowcza

M: +61 481 476 436

E: jarek.kowcza@westpac.com.au

Jameson Coombs

M: +61 401 102 789

E: jameson.coombs@westpac.com.au



 westpaciq.com.au

©2024 Westpac Banking Corporation ABN 33 007 457 141 (including where acting under any of its Westpac, St George, Bank of Melbourne or BankSA brands, collectively, "Westpac"). References to the "Westpac Group" are to Westpac and its subsidiaries and includes the directors, employees and representatives of Westpac and its subsidiaries.

Things you should know

We respect your privacy: You can view our [privacy statement](#) at [Westpac.com.au](#). Each time someone visits our site, data is captured so that we can accurately evaluate the quality of our content and make improvements for you. We may at times use technology to capture data about you to help us to better understand you and your needs, including potentially for the purposes of assessing your individual reading habits and interests to allow us to provide suggestions regarding other reading material which may be suitable for you.

This information, unless specifically indicated otherwise, is under copyright of the Westpac Group. None of the material, nor its contents, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party without the prior written permission of the Westpac Group.

Disclaimer

This information has been prepared by Westpac and is intended for information purposes only. It is not intended to reflect any recommendation or financial advice and investment decisions should not be based on it. This information does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter into a legally binding contract. To the extent that this information contains any general advice, it has been prepared without taking into account your objectives, financial situation or needs and before acting on it you should consider the appropriateness of the advice. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure this information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of this information, or otherwise endorses it in any way. Except where contrary to law, Westpac Group intend by this notice to exclude liability for this information. This information is subject to change without notice and none of Westpac or its related entities is under any obligation to update this information or correct any inaccuracy which may become apparent at a later date. This information may contain or incorporate by reference forward-looking statements. The words "believe", "anticipate", "expect", "intend", "plan", "predict", "continue", "assume", "positioned", "may", "will", "should", "shall", "risk" and other similar expressions that are predictions of or indicate future events and future trends identify forward-looking statements. These forward-looking statements include all matters that are not historical facts. Past performance is not a reliable indicator of future performance, nor are forecasts of future performance. Whilst every effort has been taken to ensure that the assumptions on which any forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from any forecasts.

Conflicts of Interest: In the normal course of offering banking products and services to its clients, the Westpac Group may act in several capacities (including issuer, market maker, underwriter, distributor, swap counterparty and calculation

agent) simultaneously with respect to a financial instrument, giving rise to potential conflicts of interest which may impact the performance of a financial instrument. The Westpac Group may at any time transact or hold a position (including hedging and trading positions) for its own account or the account of a client in any financial instrument which may impact the performance of that financial instrument.

Author(s) disclaimer and declaration: The author(s) confirms that no part of his/her compensation was, is, or will be, directly or indirectly, related to any views or (if applicable) recommendations expressed in this material. The author(s) also confirms that this material accurately reflects his/her personal views about the financial products, companies or issuers (if applicable) and is based on sources reasonably believed to be reliable and accurate.

Further important information regarding sustainability-related content: This material may contain statements relating to environmental, social and governance (ESG) topics. These are subject to known and unknown risks, and there are significant uncertainties, limitations, risks and assumptions in the metrics, modelling, data, scenarios, reporting and analysis on which the statements rely. In particular, these areas are rapidly evolving and maturing, and there are variations in approaches and common standards and practice, as well as uncertainty around future related policy and legislation. Some material may include information derived from publicly available sources that have not been independently verified. No representation or warranty is made as to the accuracy, completeness or reliability of the information. There is a risk that the analysis, estimates, judgements, assumptions, views, models, scenarios or projections used may turn out to be incorrect. These risks may cause actual outcomes to differ materially from those expressed or implied. The ESG-related statements in this material do not constitute advice, nor are they guarantees or predictions of future performance, and Westpac gives no representation, warranty or assurance (including as to the quality, accuracy or completeness of the statements). You should seek your own independent advice.

Additional country disclosures:

Australia: Westpac holds an Australian Financial Services Licence (No. 233714). You can access [Westpac's Financial Services Guide here](#) or request a copy from your Westpac point of contact. To the extent that this information contains any general advice, it has been prepared without taking into account your objectives, financial situation or needs and before acting on it you should consider the appropriateness of the advice.

New Zealand: In New Zealand, products and services are provided by either Westpac (NZ division) or Westpac New Zealand Limited (company number 1763882), the New Zealand incorporated subsidiary of Westpac ("WNZL"). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. WNZL is not an authorised deposit-taking institution for the purposes of Australian prudential standards. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address www.westpac.co.nz.

Singapore: This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients of this material in Singapore should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking

Disclaimer continues overleaf ▶

licence and is subject to supervision by the Monetary Authority of Singapore.

U.S.: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission (“CFTC”) as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. The services and products referenced above are not insured by the Federal Deposit Insurance Corporation (“FDIC”). Westpac Capital Markets, LLC (“WCM”), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 (‘the Exchange Act’) and member of the Financial Industry Regulatory Authority (‘FINRA’). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. Transactions by U.S. customers of any securities referenced herein should be effected through WCM. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments. The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person of WCM or any other U.S. broker-dealer under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.

UK and EU: The London branch of Westpac is authorised in the United Kingdom by the Prudential Regulation Authority (PRA) and is subject to regulation by the Financial Conduct Authority (FCA) and limited regulation by the PRA (Financial Services Register number: 124586). The London branch of Westpac is registered at Companies House as a branch established in the United Kingdom (Branch No. BR000106). Details about the extent of the regulation of Westpac’s London branch by the PRA are available from us on request.

Westpac Europe GmbH (“WEG”) is authorised in Germany by the Federal Financial Supervision Authority (‘BaFin’) and subject to its regulation. WEG’s supervisory authorities are BaFin and the German Federal Bank (‘Deutsche Bundesbank’). WEG is registered with the commercial register (‘Handelsregister’) of the local court of Frankfurt am Main under registration number HRB 118483. In accordance with APRA’s Prudential Standard 222 ‘Association with Related Entities’, Westpac does not stand behind WEG other than as provided for in certain legal agreements (a risk transfer, sub-participation and collateral agreement) between Westpac and WEG and obligations of WEG do not represent liabilities of Westpac.

This communication is not intended for distribution to, or use by

any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation. This communication is not being made to or distributed to, and must not be passed on to, the general public in the United Kingdom. Rather, this communication is being made only to and is directed at (a) those persons falling within the definition of Investment Professionals (set out in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”)); (b) those persons falling within the definition of high net worth companies, unincorporated associations etc. (set out in Article 49(2) of the Order); (c) other persons to whom it may lawfully be communicated in accordance with the Order or (d) any persons to whom it may otherwise lawfully be made (all such persons together being referred to as “relevant persons”). Any person who is not a relevant person should not act or rely on this communication or any of its contents. In the same way, the information contained in this communication is intended for “eligible counterparties” and “professional clients” as defined by the rules of the Financial Conduct Authority and is not intended for “retail clients”. Westpac expressly prohibits you from passing on the information in this communication to any third party.

This communication contains general commentary, research, and market colour. The communication does not constitute investment advice. The material may contain an ‘investment recommendation’ and/or ‘information recommending or suggesting an investment’, both as defined in Regulation (EU) No 596/2014 (including as applicable in the United Kingdom) (“MAR”). In accordance with the relevant provisions of MAR, reasonable care has been taken to ensure that the material has been objectively presented and that interests or conflicts of interest of the sender concerning the financial instruments to which that information relates have been disclosed.

Investment recommendations must be read alongside the specific disclosure which accompanies them and the general disclosure which can be found [here](#). Such disclosure fulfils certain additional information requirements of MAR and associated delegated legislation and by accepting this communication you acknowledge that you are aware of the existence of such additional disclosure and its contents.

To the extent this communication comprises an investment recommendation it is classified as non-independent research. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and therefore constitutes a marketing communication. Further, this communication is not subject to any prohibition on dealing ahead of the dissemination of investment research.