

10 July 2024

MORNING REPORT

Today's economic developments and market movements.

Key themes

Jerome Powell's congressional testimony was the sole focus of markets overnight.

Powell did little to sway market expectations for rate cuts this year, unveiling a more balance assessment of inflation and growth risks, while consciously avoiding any near-term guidance.

US equities continued to grind higher, extending fresh records, while the tone was less upbeat in European equities.

Treasury yields traded fairly narrow ranges, with the 2-10-year portion of the curve bear steepening slightly as the short-end held steady and longer maturity yields edged higher.

The US dollar firmed slightly against a basket of major currencies, gaining against the British Pound, the euro and the Japanese Yen.

The Aussie dollar outperformed, advancing slightly against the greenback.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	64.3	0.0%
AUD/USD	0.6741	0.1%
AUD/JPY	108.73	0.4%
AUD/GBP	0.5271	0.2%
AUD/NZD	1.1005	0.1%
AUD/EUR	0.6233	0.2%
AUD/CNH	4.9129	0.1%
AUD/SGD	0.9108	0.1%
AUD/HKD	5.266	0.1%
AUD/CAD	0.9190	0.1%
EUR/USD	1.0815	-0.1%
USD/JPY	161.28	0.3%
USD Index	105.12	0.1%

Equities	Close	Change
S&P/ASX 200	7,830	0.9%
S&P 500	5,577	0.1%
Japan Nikkei	41,580	2.0%
Hang Seng	17,523	0.0%
Euro Stoxx 50	4,904	-1.3%
UK FTSE100	8,140	-0.7%
VIX Index	12.51	1.1%

Commodities	Current	Change
CRB Index	289.98	-0.3%
Gold	2364.09	0.2%
Copper	9723.25	-0.5%
Oil (WTI futures)	81.41	-1.1%
Coal (thermal)	247.00	-0.8%
Coal (coking)	136.00	0.0%
Iron Ore	108.70	0.9%
ACCU	34.25	2.2%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.35	0.00
90 day BBSY	4.51	0.00
180 day BBSY	4.80	-0.01
1 year swap	4.47	-0.01
2 year swap	4.33	0.00
3 year swap	4.22	0.01
4 year swap	4.19	0.01
5 year swap	4.19	0.01
6 year swap	4.23	0.02
7 year swap	4.27	0.03
8 year swap	4.32	0.02
9 year swap	4.36	0.03
10 year swap	4.52	0.02

Government Bond Yields	Close	Change
Australia		
3 year bond	4.11	-0.01
10 year bond	4.34	-0.01
United States		
3-month T Bill	5.21	0.01
2 year bond	4.63	0.00
10 year bond	4.30	0.02
Other (10 year yields)		
Germany	2.58	0.04
Japan	1.09	0.00
UK	4.16	0.05

Sydney Futures Exchange	Current	Change
10 yr bond	4.38	0.03
3 yr bond	4.09	0.01
3 mth bill rate	4.50	0.01
SPI 200	7,771	-0.5%

Data as at 7:45m AEDT. Change is from the previous trading day (excluding the SFE, which is the change during the night session). **Source:** Bloomberg.



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Share markets:

US equities finished slightly higher, buoyed by remarks from Jerome Powell which did little to sway rate cut bets. The S&P 500 and the NASDAQ rose for a sixth straight session, each gaining 0.1% to notch up fresh record highs.

The mood was less upbeat across the Atlantic. Shares in Germany closed down 1.3%, matching the slide in the broader Euro Stoxx 50. In London, the FTSE 100 shed 0.7%.

The ASX 200 gained 0.9% yesterday, continuing to jump around within a familiar range. Futures traded lower overnight, pointing to a soft open this morning.

Interest rates:

US treasuries traded fairly narrow ranges overnight, suggesting comments from Jerome Powell did little to shift the markets assessment of the economy and the rate outlook. The yield curve bear steepened slightly as the 2-year yield finished unchanged at 4.63%, while the 10-year yield edged 2 basis points higher to 4.30%.

Overnight index swaps (OIS) imply around a 70% chance of a Fed rate cut at the September meeting, with a cut fully priced in by November.

Aussie bond futures sold off slightly overnight. The 3-year (futures) yield rose 1 basis point to 4.09%, while the 10-year yield gained 3 basis points to 4.38%.

Interest rate markets are still pricing in a roughly 50/50 chance the RBA hikes rates again by November this year. Cuts are not yet fully priced into the curve until later next year.

Foreign exchange:

The US dollar edged higher, gaining against the British Pound, the euro and the Japanese Yen. The DXY traded from a low of 104.96 to a high of 105.21 before pulling back slightly to trade around 105.12 at the time of writing.

The Aussie dollar outperformed, rising from a low of 0.6724 to a high of 0.6748 - retesting resistance around 0.6750. The AUD/USD has since pulled back slightly to trade around 0.6741. The Japanese Yen came under renewed pressure, largely unwinding recent gains. The USD/JPY closed back above 161, finishing around 161.28.

Commodities:

The West Texas Intermediate (WTI) price of oil slipped

Today's key data and events

Time	Event	Exp	Prev
8:45am	NZ Net Migration May		7.4k
11:30am	CH CPI Jun y/y	0.4%	0.3%
	CH PPI Jun y/y	-0.8%	-1.4%
12pm	NZ RBNZ Official Cash Rate Decision	5.50%	5.50%
12am	Fed's Powell to Testify to Congress		

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.

for a third consecutive session falling 1.1% to US\$81.41 per barrel. Copper also slipped (-0.5%), while gold (0.2%) and iron ore (0.9%) bucked the trend.

Australia:

The Westpac-Melbourne Institute consumer confidence index fell to 82.7 in July from 83.6 in June, confirming sentiment remains stuck in the doldrums.

Interestingly, households are more alert to the risk of additional rate hikes with just shy of 60% of respondents expecting mortgage rates to increase over the next year - up sharply on previous months.

Stage 3 tax cuts and gradually easing inflation will continue to unwind the extreme pressure recently heaped on household incomes. This should help foster some optimism among consumers, although an easing in monetary policy will likely be needed to catalyse a sustained improvement in sentiment.

The NAB business survey recorded a sharp uptick in business confidence in June, rising 6 points to +4. However, in the context of recent results, business confidence remains broadly neutral, having oscillated between slightly pessimistic and narrowly optimistic over recent months. While businesses are clearly more upbeat than households, the mood is hardly cheerful.

Business conditions continued to grind lower, edging down to +4 in June from +6 in May - below long-run average levels. This is hardly surprising given recent soft economic data. Meanwhile a tepid forward orders reading suggested there has been more of the same in train for the June quarter.

On the cost side capacity utilisation remained elevated, a sign that demand, whilst moderating, continues to outstrip supply. Encouragingly, measures of input costs unwound their spike in May, but remain elevated by historical standards. This echoes recent data which has shown inflation is still coming down, just at a slower rate than previously anticipated.

United States:

Jerome Powell struck plenty of familiar chords during his congressional testimony overnight. Powell was careful not to opine on the potential timing of rate cuts but did underscore that hiking rates further was deemed



unlikely, hardly breaking any new ground. Interestingly, however, Powell outlined a more balanced assessment of the economic risks, stressing that the Board is cognisant the risk of both slower inflation progress and weaker economic growth and labour market outcomes.

In making this assessment Powell noted that the economy is no longer overheated and that the labour market appears to be back in balance - noting that this was only a recent observation prompted by the latest labour market data. However, it was also reinforced that further data would be needed to build confidence that the inflation target can be sustainably achieved. The rhetoric reinforced expectations for rate cuts this year, but the lack of guidance and balanced tone prevented a broader bet on imminent rate cuts.

The NFIB small business optimism index rose to its highest level this year, lifting to 91.5 in June from 90.5 in May. However, by historical standards small business sentiment remains decidedly weak, having averaged 101.2 in the five years prior to the pandemic.



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