

26 July 2024

# MORNING REPORT

Today's economic developments and market movements.

## Key themes

US economic data pointed to a goldilocks outcome – growth was stronger than expected in the June quarter, with the economy growing at around trend over the first half of 2024, while inflationary pressures continue to dissipate towards the Fed's target of 2%.

US equities were mixed as the continued selloff in tech stocks and poor earnings reports, more than offset the gains made by interest sensitive stocks. European stocks were generally lower on the back of weaker than expected European data.

US bond yields were lower, particularly longer dated yields, while the US dollar was broadly unchanged. The Aussie was lower, in part reflecting the continued softness in key commodity prices.

## Data snapshot

FX Last 24 hrs	Current	Change
TWI	62.0	-1.0%
AUD/USD	0.6537	-0.7%
AUD/JPY	100.62	-0.6%
AUD/GBP	0.5086	-0.2%
AUD/NZD	1.1104	0.1%
AUD/EUR	0.6027	-0.7%
AUD/CNH	4.7333	-1.0%
AUD/SGD	0.8782	-0.7%
AUD/HKD	5.1026	-0.7%
AUD/CAD	0.9036	-0.5%
EUR/USD	1.0847	0.1%
USD/JPY	153.93	0.0%
USD Index	104.39	0.0%

Equities	Close	Change
S&P/ASX 200	7,861	-1.3%
S&P 500	5,399	-0.5%
Japan Nikkei	37,870	-3.3%
Hang Seng	17,005	-1.8%
Euro Stoxx 50	4,811	-1.0%
UK FTSE100	8,186	0.4%
VIX Index	18.46	2.3%

Commodities	Current	Change
CRB Index	279.69	0.0%
Gold	2364.47	-1.4%
Copper	9021.93	-0.8%
Oil (WTI futures)	78.28	0.9%
Coal (thermal)	219.00	-0.5%
Coal (coking)	138.80	-0.1%
Iron Ore	102.30	-1.0%
ACCU	34.00	0.0%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.39	0.02
90 day BBSY	4.54	0.02
180 day BBSY	4.83	0.02
1 year swap	4.37	-0.03
2 year swap	4.14	-0.04
3 year swap	4.01	-0.06
4 year swap	3.98	-0.06
5 year swap	4.00	-0.06
6 year swap	4.05	-0.05
7 year swap	4.11	-0.05
8 year swap	4.16	-0.05
9 year swap	4.22	-0.04
10 year swap	4.42	-0.05

Government Bond Yields	Close	Change
<b>Australia</b>		
3 year bond	3.98	-0.06
10 year bond	4.31	-0.02
<b>United States</b>		
3-month T Bill	5.17	-0.01
2 year bond	4.43	0.00
10 year bond	4.24	-0.04
<b>Other (10 year yields)</b>		
Germany	2.42	-0.03
Japan	1.06	-0.02
UK	4.13	-0.03

Sydney Futures Exchange	Current	Change
10 yr bond	4.31	-0.01
3 yr bond	3.94	-0.01
3 mth bill rate	4.47	0.00
SPI 200	7,865	0.4%

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.



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## Share markets:

Following a volatile session, US equities were mixed. The tech selloff continued with Microsoft, Nvidia and Alphabet all recording losses. Disappointing earnings reports from automakers to luxury groups also dragged the market lower, with Ford closing 18% in the red – its worst day since November 2008.

Interest rate sensitive stocks received a boost from the positive economic data released overnight – the Russell 2000 Index (comprised of smaller cap stocks) was up 1.3% and the S&P 500's equal-weighted index that strips out market-cap bias ticked up 0.1%.

Looking at key indices, the Dow Jones rose 0.2% to 39,935.07. The S&P 500 declined 0.5% to 5,399.22. While the Nasdaq fell 0.9% to 17,181.72.

European stocks were generally lower on the back of weaker than expected economic data, with the DAX falling 0.5% and the Euro Stoxx 50 down 1.0%.

The ASX200 index fell 1.3% to 7,861.20, a two-week low. The loss was broad based with all sectors closing lower, led by materials. Futures are pointing to positive open this morning.

## Interest rates:

Longer dated US bond yields were lower.

The 2-year bond yield was unchanged at 4.43%. The 10-year treasury yield declined 4 basis points to 4.24%.

Interest-rate markets are pricing in 66 basis points of rate cuts this year. A rate cut in September is now more than fully priced in.

Australian yields were broadly unchanged. The 3-year government bond yield (futures) declined 1 basis point to 3.94%, while the 10-year government bond yield (futures) also declined 1 basis point to 4.31%.

There is a 22% chance of an RBA rate hike priced in for the August meeting. The first full rate cut has now been priced in for May next year.

## Foreign exchange:

The US dollar was broadly unchanged after flipping between losses and gains, while remaining in a narrow range – 104.08 to 104.46. It has settled at around 104.39.

## Today's key data and events

Time	Event	Exp	Prev
8:00am	NZ consumer confidence Jul		83.2
11:30am	CH Industrial profits Jun y/y		0.7%
10:30pm	US Personal income Jun	0.4%	0.5%
	US Personal spending Jun	0.3%	0.2%
	US PCE core Jun	0.2%	0.1%
12:00am	US UoM consumer sentiment Jul final	66.4	66.0

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.

The Aussie was lower with the AUD/USD pair down 0.7%. China's underwhelming economic performance, lower commodity prices and uncertainty driven by the US election continue to weigh on the Aussie, and are more than offsetting yield support.

## Commodities:

Commodities were generally lower, with gold, copper and iron ore all lower. The softer outlook for China and the global economy more broadly is weighing on prices.

This WTI futures traded higher overnight, but is still trading below US\$80 per barrel – at around US\$78,82 per barrel.

## Australia:

There was no major economic data published yesterday.

## Eurozone:

The IFO business climate indicator for Germany declined to 87.0 points in July 2024, from 88.6 points in June.

This was the lowest read since February and well below the 89.0 points expected by the market. Both the current conditions and expectations indices deteriorated over July.

Euro area M3 money supply grew by 2.2% in annual terms, much stronger than the 1.9% expected by the market. Growth in the money supply troughed in August 2023, and has accelerated since then, pointing to improving activity prospects for the area.

## United States:

The economy expanded an annualized 2.8% in the June quarter, up from 1.4% in March quarter, and well above the 2% expected by the market.

Growth in consumer spending picked up compared with the March quarter, led by a rebound in consumption of goods, including motor vehicles, recreational goods and vehicles, and gasoline. Equipment investment was strong at almost 12% annualised in the June quarter, following an extended period of weakness. Government spending and private inventories also contributed to growth in the June quarter.



Dwelling and structures investment both pulled back in the June quarter but are still roughly 5.5% higher over the year to June.

The personal consumption expenditure price index (PCE) rose 2.3%yr in annualised terms, slower than the 2.6%yr expected by the market. Core PCE eased to 2.9%yr, broadly in line with expectations and lower than the 3.7%yr recorded in the March quarter.

These results suggest inflationary pressures continue to dissipate while the economy slows to be growing at around trend over the first half of 2024.

Durable goods orders in June fell 6.6% in the month. However, this miss was solely due to volatility in transport orders, with non-defence ex aircraft orders instead up 1.0%. Considering the modest downward revision to May, June's core orders result was consistent with modest growth, largely as anticipated.

Weekly initial jobless claims remained low at 235k, with continuing claims at 1.851m.

The Kansas City's Fed manufacturing index disappointed, declining from -8 to -13 in July, pointing to a fifth consecutive contraction in the region's manufacturing activity.



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