2 August 2024

MORNING REPORT

Today's economic developments and market movements.

Key themes

There was a sea of red across major equity markets overnight amid disappointing economic data.

Not even the Bank of England's first rate cut in more than four years could turn the tide as investors responded to the weaker than expected data coming out of the US, China and Europe.

Bond markets rallied with yields down sharply in the US and the UK, particularly at the shorter more policy sensitive end of the curve.

The US dollar advanced amid the instability in the Middle East. The risk off tone saw the Aussie fall sharply below the 0.6500 mark.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	61.5	0.2%
AUD/USD	0.6498	-0.6%
AUD/JPY	97.05	-1.0%
AUD/GBP	0.5098	0.3%
AUD/NZD	1.0927	-0.6%
AUD/EUR	0.6021	-0.3%
AUD/CNH	4.7106	-0.3%
AUD/SGD	0.8685	-0.6%
AUD/HKD	5.0785	-0.6%
AUD/CAD	0.9016	-0.2%
EUR/USD	1.0792	-0.3%
USD/JPY	149.36	-0.4%
USD Index	104.34	0.2%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.36	-0.03
90 day BBSY	4.47	-0.07
180 day BBSY	4.72	-0.11
1 year swap	4.17	-0.04
2 year swap	3.87	-0.02
3 year swap	3.72	-0.09
4 year swap	3.70	-0.08
5 year swap	3.72	-0.09
6 year swap	3.77	-0.08
7 year swap	3.83	-0.08
8 year swap	3.89	-0.08
9 year swap	3.95	-0.08
10 year swap	4.12	-0.04

Equities	Close	Change
S&P/ASX 200	8,115	0.3%
S&P 500	5,447	-1.4%
Japan Nikkei	38,126	-2.5%
Hang Seng	17,305	-0.2%
Euro Stoxx 50	4,766	-2.2%
UK FTSE100	8,283	-1.0%
VIX Index	18.59	13.6%

Commodities	Current	Change
CRB Index	273.59	-1.6%
Gold	2446.26	-0.1%
Copper	9138.20	2.9%
Oil (WTI futures)	76.93	-1.3%
Coal (coking)	218.00	-0.5%
Coal (thermal)	150.35	2.6%
Iron Ore	101.20	1.7%
ACCU	34.25	0.4%

Government Bond Yields	Close	Change
Australia		
3 year bond	3.74	-0.02
10 year bond	4.09	-0.03
United States		
3-month T Bill	5.10	-0.03
2 year bond	4.15	-0.11
10 year bond	3.98	-0.05
Other (10 year yields)		
Germany	2.24	-0.06
Japan	1.04	-0.02
UK	3.88	-0.09

Sydney Futures Exchange	Current	Change
10 yr bond	4.02	-0.07
3 yr bond	3.63	-0.07
3 mth bill rate	4.35	-0.01
SPI 200	7,925	-1.8%

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:

Major equity markets closed lower overnight amid disappointing economic data. Key equity indices were lower in the US, led by tech stocks. After hours reporting by few of the tech megacaps, including Amazon and Apple, has seen further declines in after hours trade.

The S&P 500 closed 1.4% lower. The Dow Jones fell 1.2%. The tech heavy Nasdaq dropped 2.3%, with the Nasdaq 100 recording the biggest one-day reversal since May 2022.

In the UK, the 25-basis point BoE cut to rates triggered a rally, which was more than reversed by growing concerns around the US economy. The FTSE 100 closed 1.0% lower. The Euro Stoxx 50 (-2.2%) and the DAX (-2.3%) also closed lower.

The ASX200 index increased 0.3% to 8,114.70, boosted by miners and real estate stocks. Futures are pointing to sharp falls this morning.

Interest rates:

Bond yields fell sharply, particularly at the shorter policy sensitive end of the curve, as concerns grow over the outlook for the US and global economy.

The 2-year bond yield declined by 11 basis points to 4.15%. The 10-year treasury yield declined by 5 basis points to fall below 4.0% - currently sitting at 3.98%.

U.K. gilt yields also declined following the BoE's decision – 2-year gilt declined by 11 basis points to 3.68% while 10-year yields fell 8 basis points to 3.88%.

Interest-rate markets are pricing in 85 basis points of rate cuts this year. The first full rate cut is more than fully priced in for September this year, follow by another cut in November and December.

Australian yields were also lower. The 3-year government bond yield (futures) declined 2 basis points to 3.74, while the 10-year government bond yield (futures) declined 3 basis points to 4.09%.

Markets have priced in around a 60% chance of a cut this year. The first full RBA rate cut is priced in for February 2025.

Foreign exchange:

T he US dollar advanced amid the growing instability in the Middle East. The US dollar index increased to a session high of 104.45, before settling at around 104.34.

The risk off tone saw the Aussie underperform and fall sharply below the 0.6500 mark. The pair reached a high of 0.6560 before falling to 0.6489. It is currently trading at 0.6498.

Today's key data and events

Time	Event	Exp	Prev
11:30am	AU PPI June quarter		0.9%
	AU Housing finance Jun	0.1%	-1.7%
10:30pm	US Nonfarm payrolls Jul	175k	206k
	US Average hourly earnings Jul	0.3%	0.3%
12:00am	US Factory orders Jun	-3.2%	-0.5%
	US Durable goods orders Jun final		-6.6%

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 British pound fell to a four-week low, with the GBP/USD pair falling by around 0.6% to 1.2772 after the announcement.

Commodities:

The price of oil fell amid weak US and China economic data. This more than offset recent increases. This WTI futures is currently trading at around US$76.93 per barrel.

Copper and other metals increased after recent losses, helped by prospects of US rate cuts.

Australia:

Australia's goods trade surplus widened to $5.6bn in June from $5.1bn in May.

Most of the surprise relative to expectations can be pinned on the annual review of seasonal adjustment factors. This saw a massive –$1.1bn wiped off the goods surplus (decrease in exports) over April and May, most of which was added back to Q4 2023.

Export earnings were up a solid 1.7% in June. Surprisingly, the majority of the increase in earnings was driven by the smaller rural goods sector (+5.6%), with gains largely concentrated in cereal grains and cereal preparations (+12.1%) and other rural goods (+6.3%).

Australia's 'Big 3' exports groups also rose in June, with gains ranging from 2.9% in other mineral fuels (LNG), 2.3% gain in coal, coke and briquettes, and a modest 0.9% rise in metal ores and minerals (iron ore). These were partly offset by an unwind of last month's outsized gain in transport equipment, leaving non-rural goods up just 0.8% in the month overall.

Meanwhile, the import bill managed to rise 0.5% in the month. The expected pull-back in non-industrial transport equipment (i.e. motor cars) from last month's surge was more than offset by a burst in capital goods imports, largely from the volatile category of 'civil aircraft and confidentialised items' (+41.2%) and capital goods not elsewhere classified (+13.8%).

The wrap-up for the quarter suggests Australia's goods trade account printed a cumulative surplus of +$16.3bn in Q2, down from a surplus of +$20.4bn in Q1, reflecting a sharper decline in export earnings (–3.4%) relative to the modest softening in the import bill (–0.5%).

China:
The Caixin manufacturing PMI declined to 49.8 points in July, from 51.8 points in June. This was softer than the 51.5 points the market was expecting. The last time the Caixin measure showed a sub-50 reading was in October 2023. Both the Caixin and official measures are broadly consistent with the average of the past 5 years, a period when GDP growth averaged 4.9%.

Eurozone:
The unemployment rate edged higher to 6.5% in June, from 6.4% in May. This was higher than the 6.4% the market was expecting. The outcome continues to point to a robust labour market. However, there are risks going forward with PMI survey data pointing to softer employment growth and higher unemployment.

United Kingdom:
The Bank of England delivered its first 25 basis point interest rate cut in more than four years, taking the policy interest rate to 5%.

The decision was finely balanced with the policy making committee voting 5-4 in favour of the cut. The decision comes after inflation returned to the BoE's 2% target in May, and stayed there in June, despite high services inflation.

BoE Governor Andrew Bailey cautioned that the move does not mean a rapid succession of further cuts. He said "inflationary pressures have eased enough that we've been able to cut interest rates today... But we need to make sure inflation stays low and be careful not to cut interest rates too quickly or by too much."

The BoE's policy statement noted that it was "appropriate to reduce slightly the degree of policy restrictiveness" recognising that the stance would remain highly contractionary after the decision.

The manufacturing PMI was revised higher to 52.1 points in July, from a preliminary of 51.8 points and compared to 50.9 points in June. This signals the sharpest expansion in the manufacturing sector since July 2022.

The Nationwide house price index rose by 2.1% in annual terms, accelerating from the 1.5% increase recorded in June. It was the sixth consecutive period of rising house prices, however, prices are still below the summer 2022 peak.

United States:
The ISM Manufacturing PMI fell to 46.6 points in from 48.5 points in the previous month. This was well below the 48.8 points the market was expecting. This has been the sharpest contraction in factory activity since November. Production and new orders both deteriorated to levels consistent with a material, sustained contraction in the sector. Employment was also very weak, around 5 percentage points below its 5-year average at 43.4 points.

The S&P Manufacturing PMI was revised slightly higher to 49.6 points in July 2024, from a preliminary of 49.5 points. Consistent with the ISM PMI, the outcome points to a deterioration in business conditions.

Initial jobless claims increased to 249k last week, from 235k. This was the highest read in one year. Compared to a longer timeframe however, it is still low, signalling job shedding remains marginal in aggregate.

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