31 July 2024

MORNING REPORT

Today's economic developments and market movements.

Key themes

Disappointing results from Microsoft further dented sentiment in US equity markets, pushing stocks lower with tech leading the way.

Moves were relatively tame in rates and FX markets ahead of domestic inflation data, the Bank of Japan and the US FOMC meetings later today.

The US yield curve shifted lower. There is virtually no chance of Fed rate cut at tonight's meeting priced into markets. However, a cut is fully priced for the September meeting.

The US dollar edged lower as the Japanese Yen continued to gain against the Greenback.

The euro and the British Pound were little changed but slightly lower, while the Aussie dollar held within its range of the past week.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	62.2	0.2%
AUD/USD	0.654	-0.2%
AUD/JPY	99.75	-1.0%
AUD/GBP	0.5095	0.0%
AUD/NZD	1.1077	-0.6%
AUD/EUR	0.6047	-0.1%
AUD/CNH	4.7357	-0.6%
AUD/SGD	0.8777	-0.3%
AUD/HKD	5.1091	-0.1%
AUD/CAD	0.9056	-0.2%
EUR/USD	1.0816	-0.1%
USD/JPY	152.51	-0.8%
USD Index	104.48	-0.1%

Equities	Close	Change
S&P/ASX 200	7,953	-0.5%
S&P 500	5,436	-0.5%
Japan Nikkei	38,526	0.1%
Hang Seng	17,003	-1.4%
Euro Stoxx 50	4,841	0.5%
UK FTSE100	8,274	-0.2%
VIX Index	17.69	6.6%

Commodities	Current	Change
CRB Index	274.74	-0.1%
Gold	2409.47	1.1%
Copper	8880.07	-0.6%
Oil (WTI futures)	74.73	-1.4%
Coal (thermal)	217.00	-0.5%
Coal (coking)	139.60	-0.5%
Iron Ore	100.00	-2.6%
ACCU	33.88	-0.4%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.39	0.00
90 day BBSY	4.54	0.01
180 day BBSY	4.85	0.03
1 year swap	4.36	-0.02
2 year swap	4.13	-0.04
3 year swap	4.01	-0.04
4 year swap	3.96	-0.03
5 year swap	3.98	-0.03
6 year swap	4.02	-0.02
7 year swap	4.08	-0.02
8 year swap	4.13	-0.02
9 year swap	4.19	-0.01
10 year swap	4.37	-0.01

Government Bond Yields	Close	Change
Australia		
3 year bond	3.98	0.01
10 year bond	4.28	0.00
United States		
3-month T Bill	5.13	0.00
2 year bond	4.36	-0.04
10 year bond	4.14	-0.04
Other (10 year yields)		
Germany	2.34	-0.02
Japan	1.00	-0.02
UK	4.04	-0.01

Sydney Futures Exchange	Current	Change
10 yr bond	4.25	-0.03
3 yr bond	3.91	-0.04
3 mth bill rate	4.48	-0.01
SPI 200	7,943	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.

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

Today's key data and events

Time	Event	Exp	Prev
9:50am	JN Industrial Production Jun Prel.	-4.5%	3.6%
11am	NZ ANZ Business Confidence Jul		6.1
11:30am	AU CPI Q2	1.0%	1.0%
	AU Trimmed Mean CPI Q2	0.9%	1.0%
	AU Retail Sales Jun	0.2%	0.6%
	AU Retail Sales Vol. Q2	0.3%	-0.4%
	AU Priv. Sector Credit Jun	0.4%	0.4%
	CH Mfg PMI Jul	49.4	49.5
	CH Serv. PMI Jul	50.2	50.5
7pm	EZ CPI Jul Prel.	-0.1%	0.2%
10:15pm	US ADP Employment Chg. Jul	150k	150k
10:30pm	US Employment Cost Index Q2	1.0%	1.2%
11:45pm	US MNI Chicago PMI Jul	45.0	47.4
12am	US Pending Home Sales Jun	1.5%	-2.1%
12:01am	AU CoreLogic Home Value Jul	0.5%	0.7%
4am	US FOMC Decision (Upper Bound)	5.50%	5.50%
TBC	JN BoJ Target Rate (Upper Bound)	0.10%	0.10%

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.

Share markets:

Disappointing results from Microsoft further dented sentiment in US equity markets, pushing stocks lower with tech leading the way. The S&P 500 fell 0.5% while the NASDAQ was down 1.3%.

The Euro Stoxx 50 lifted 0.5%, supported by higher-than -expected GDP data.

The ASX 200 fell 0.5% yesterday. There was weakness across most sectors with the exception of financials and consumer discretionary. A lack of policy announcements in China's July Politburo meeting drove a 1.4% fall in the Hang Seng and a 0.6% decline in the CSI 300. Elsewhere in Asia, Japan's Nikkei and India's NIFTY gained 0.2% and 0.1%, respectively, potentially buoyed by a rotation away from China.

Interest rates:

The 2-year and 10-year US Treasury yields both finished the day 4 basis points lower. Markets are pricing a mere 4.5% chance of a cut at tonight's FOMC meeting but a September rate cut is fulling priced in with another cut by December.

The Aussie yield curve flattened slightly yesterday with the 2-year up 1 basis point and the 10-year yield unchanged. Futures had a decent bid overnight, mirroring the moves offshore. The 3-year (futures) yield fell 4 basis points to 3.91%, while the 10-year (futures) yield was down 3 basis points to 4.25%.

Ahead of today's Bank of Japan meeting, the Japanese 10-year yield fell 2 basis points to 0.97% - falling back below 1.0% for the first time in four weeks.

Foreign exchange:

The DXY index fell slightly overnight, finishing at 104.48. The DXY traded between a high of 104.80 and a low of 104.45, holding above last week's range.

The Yen finished firmer against the greenback after trading a wide range. The USD/JPY ranged from a high of 155.22 to a low of 152.66 and has opened lower in the Asian session, currently trading around 152.51 at the time of writing.

The euro and British Pound were little changed, finishing slightly weaker overnight against the US dollar.

The Aussie dollar moved lower but remained within the trading range of the last week as investors position for today's inflation data and a slew of key central bank meetings.

Commodities:

Crude fell further despite Israel's attack that reportedly killed a senior Hezbollah commander in Beirut and news of another drop in crude and product inventory reported by the American Petroleum Institute. West Texas Intermediate futures are down 1.4% at US$74.73 per barrel.

Metals remained under pressure with aluminium and zinc making fresh lows. However, copper did manage to stabilise, clinging just below the US$9,000 level. Iron ore markets pushed back below US$100 as the Politburo meeting failed to announce any fresh stimulus. Iron ore futures in Singapore are down 2.6% from the same time yesterday at US$100.00.

Australia:

The number of residential dwelling approvals fell 6.5% in June, continuing recent volatility. Private sector house approvals were 0.5% lower in the month but remain in a gentle upswing having troughed in the middle of 2023. Still, in absolute level terms, the flow of new house approvals remains modest by historical standards.

Higher-denisty approvals continue to drive month-to-month volatility, falling 19.7% in June following a 17.4% increase in May. But the broad story remains one of significant weakness with higher density approvals around their lowest levels in over a decade in trend terms.

Overall, the data paints a lackluster picture for new housing supply. Rising prices and surging rents have not yet been sufficient to drive a meaningful supply response given headwinds from higher costs, extended delays, labour shortages and higher interest rates.

China:

China's July Politburo meeting recognised the economic dangers of a divided economy - strong investment in new industry, but entrenched weakness in property and deteriorating momentum in consumption. While no new policies were announced to help stabilise and broaden growth, it is clear additional support is in the works.

News reports of the meeting's conclusions point to consumption and household income being the focus for additional support, while authorities view recently announced measures for the property sector as only beginning to be implemented. This is not a material shift in policy by any means, but does point to a little more support for Chinese domestic demand through the remainder of 2024 into 2025. Confidence is critical to the growth outlook but extremely brittle. Risks will remain skewed to the downside.

Eurozone:

GDP growth surprised marginally to the upside in the June quarter, rising 0.3% against consensus expectations of 0.2%. Annual growth firmed from 0.5% to 0.6%, but remains tepid.

Growth in Germany remained weak in the June quarter, activity declining 0.1% in the quarter and over the year. Spain continued to show strength, activity rising 0.8% in the quarter and 2.9% in the year. Italy and France were in between, GDP increasing 0.2% and 0.3%, respecively, in the quarter and 0.9% and 1.1%, respectively over the year. A solid labour market, falling inflation and improving growth are consistent with a gradual easing in interest rates and support the growth outlook.

Consumer confidence was finalised unchanged at -13.0 in July. Economic confidence edged down from 95.9 to 95.8 but held above expectations for a fall to 95.2. Economic confidence has been bouncing around month-to-month but remains relatively soft compared to pre-pandemic levels.

The German consumer price index (CPI) came in as expected in July rising 0.3% in the month, accelerating from a 0.1% increase in June. In annual terms, the CPI rose 2.3%, slightly above expectations for a 2.2% rise. Annual inflation in Germany has struggled to push below 2.2% in 2024 as price pressures have proved sticky. However, importantly there has been no significant signs of any renewed acceleration in price pressures.

Japan:

The job to applicant ratio ticked down to 1.23 continuing its downward trend that emerged since the start of 2023. The ratio is likely to remain above one as strong demand for services, driven in part by tourism, have led to labour shortages. While easing, the ratio still suggests that the labour market remains tight enough to stoke wage growth.

United States:

JOLTS job openings were a touch better than expected in June at 8.2m unchanged from May's revised figure. While the number of job openings is still meaningfully above the pre-pandemic average, relative to employment, job openings are broadly in line with pre-pandemic averages. Separation and quit rates also point to labour demand and supply being broadly balanced with a normal degree of churn.

Conference Board consumer confidence continued to oscillate in July, rebounding from 97.8 to 100.3 - just above the 3-month average of 99.8. The improvement was solely due to expectations, the expectations index rising from 72.8 to 78.2. Views on current circumstances deteriorated from 135.3 to 133.6. Versus a year ago, the present situation and expectations are more than 10% lower despite continued strength in the labour market.

The FHFA house price index was flat in May following a 0.3% gain in April. The CoreLogic measure rose 0.3% in May following a revised 0.4% rise in April. The volume of existing homes sales remain low due to a significant lack of supply, this is providing some support to house prices as higher interest rates quell demand. Against a tight supply backdrop, the expectation of falling interest rates should see prices continue to firm, though a deteriorating labour market will keep price growth contained.

The Dallas Fed services activity index firmed in July to its strongest level since April 2022. Robust consumer demand is supporting services activity. The reading of -0.1 is reflective of relatively stable activity rather than a broad improvement in services conditions.

Authors

Westpac Economics

Luci Ellis
M: +61 421 835 252
E: luci.ellis@westpac.com.au

Besa Deda
M: +61 404 844 817
E: besa.deda@westpac.com.au

Matthew Hassan
M: +61 409 227 159
E: mhssan@westpac.com.au

Elliot Clarke
M: +61 459 848 856
E: eclake@westpac.com.au

Justin Smirk
M: +61 459 844 788
E: jsmirk@westpac.com.au

Pat Bustamante
M: +61 434 856 909
E: pat.bustamante@westpac.com.au

Ryan Wells
M: +61 401 423 628
E: ryan.wells@westpac.com.au

Illiana Jain
M: +61 403 908 032
E: illiana.jain@westpac.com.au

Jameson Coombs
M: +61 401 102 789
E: jameson.coombs@westpac.com.au

IQ

westpaciq.com.au

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.

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.