8 July 2024

MORNING REPORT

Today's economic developments and market movements.

Key themes

The tone was set by the softer than expected economic data coming out of the US, which supports the case for rate cuts in coming months. European central bank officials also signalled that two more cuts this year seemed "reasonable".

On the back of this, there was a sea of green when it comes to equities. US and European markets finished firmly in the green, with the S&P 500 notching up a fresh record high. Asian equity futures are higher.

US bond yields were lower, while the US dollar also lost ground. The Aussie appreciated, climbing to its highest level since early January this year. The AUD/USD pair remains above the 0.6700 level.

The prices of key commodities were generally higher, with oil and gold both lower.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	64.2	0.0%
AUD/USD	0.6745	0.3%
AUD/JPY	108.41	0.0%
AUD/GBP	0.5265	-0.1%
AUD/NZD	1.0981	-0.1%
AUD/EUR	0.623	0.1%
AUD/CNH	4.9186	0.3%
AUD/SGD	0.91	0.1%
AUD/HKD	5.2703	0.4%
AUD/CAD	0.9204	0.5%
EUR/USD	1.0826	0.3%
USD/JPY	160.72	-0.3%
USD Index	104.92	-0.5%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.36	-0.01
90 day BBSY	4.51	0.00
180 day BBSY	4.81	0.02
1 year swap	4.48	-0.02
2 year swap	4.34	-0.04
3 year swap	4.26	-0.04
4 year swap	4.22	-0.04
5 year swap	4.22	-0.05
6 year swap	4.25	-0.05
7 year swap	4.29	-0.06
8 year swap	4.33	-0.06
9 year swap	4.38	-0.06
10 year swap	4.54	-0.06

Equities	Close	Change
S&P/ASX 200	7,822	-0.1%
S&P 500	5,567	0.5%
Japan Nikkei	40,912	0.0%
Hang Seng	17,800	-1.3%
Euro Stoxx 50	4,979	-0.2%
UK FTSE100	8,204	-0.5%
VIX Index	12.48	1.8%

Commodities	Current	Change
CRB Index	293.43	-0.2%
Gold	2388.18	1.5%
Copper	9811.24	0.6%
Oil (WTI futures)	83.00	-0.9%
Coal (thermal)	250.75	2.1%
Coal (coking)	138.55	-0.8%
Iron Ore	110.35	-2.9%
ACCU	33.68	0.5%

Government Bond Yields	Close	Change
Australia		
3 year bond	4.16	0.00
10 year bond	4.40	-0.01
United States		
3-month T Bill	5.22	-0.01
2 year bond	4.60	-0.10
10 year bond	4.28	-0.08
Other (10 year yields)		
Germany	2.56	-0.05
Japan	1.08	0.00
UK	4.13	-0.07

Sydney Futures Exchange	Current	Change
10 yr bond	4.36	-0.05
3 yr bond	4.09	-0.04
3 mth bill rate	4.49	-0.02
SPI 200	7,797	-0.1%

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:

The payrolls report led to markets shortening their odds of a US Federal Reserve rate cut in September. These rate-cut expectations spurred the US S&P 500 share market to a new all-time high and drove US Treasury yields sharply lower across the curve. The US 2-year bond yield posted its biggest daily drop since the end of January.

Non-farm payrolls printed modestly higher than market expectations, but there were significant downward revisions to prior months. The unemployment rate inched higher, although the participation rate lifted also.

The data and thin trading conditions pushed the US dollar index to a 3-week low and the Aussie dollar to a six-month high of 06753. In FX markets, a big mover was the British pound after UK Labour Party swept to power in a landslide victory.

Share markets:

The US S&P 500 share market index ended the week at an all-time high, as traders looked past signals of a US economic slowdown and instead focussed on the prospect for US rate cuts. The session was marked by thinner trading volumes after the public holiday. The S&P 500 gained 0.5% and notched its 34th record this year. The Dow added 0.2% and the Nasdaq surged 0.9%.

Fuelled by expectations that the Fed will need to lower rates in order to stave off a souring economy, the MSCI World index set a new record Friday, breaking free from its two-week range.

Meanwhile, on Friday, the ASX 200 slid 0.1%.

Interest rates:

There were sharp falls in US Treasury yields across the curve as US data showed US hiring moderated in June and prior months were revised lower. The US 2-year yield dropped 10 basis points to 4.60% - the biggest daily decline since January 31. The US 10-year yield declined 8 basis points to 4.28% - the biggest decline since June 12. Interest-rate markets are currently pricing two rate cuts from the US Federal Reserve this year with bets on a September rate cut building. There is currently a 75% probability attached to a rate cut in September, up from 70% before the payrolls report.

Australian bond futures yields fell across the curve; the 3-year yield fell 4 basis points and the 10-year yield dropped 5 basis points.

Today's key data and events

Time	Event	Exp	Prev
11:30am	AU Housing finance total May	-2.0%	4.8%
11:30am	AU Housing finance Owner–occupier	-2.0%	4.3%
11:30am	AU Housing finance Investor	-2.0%	5.6%
10:00am	JN Current Account May		
5:00am	US Consumer Credit May		

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.

Foreign exchange:

The US dollar index fell to a fresh three-week low of 104.83 after the payrolls report pointed to a slowing US economy, shortening the odds of two Federal Reserve rate cuts this year.

The AUD/USD appreciated to a six-month high of 0.6753 on Friday night, as markets lifted the probability of a September rate cut from the Fed and held on to some possibility of a rate hike in 2024 from the Reserve Bank. Markets do not expect a rate cut to eventuate in Australia until December 2025.

The AUD/USD could stretch towards resistance at around the 0.6810 handle, but the technical picture suggests there's a growing risk of a modest pullback to 0.6720 in the short term, followed by some consolidation, given the sharp move higher since July 1 from 0.6600.

The GBP was a big mover after the election result. GBP/USD moved to a three-week high of 1.2817, from a low of 1.2754. Our Westpac Strategy team see some risk of the Bank of England talking up an August rate cut, which could see a shift in the recent trend in the pound. AUD/GBP dropped sharply during Friday overnight trade, but fully recovered its losses to trade around 0.5265.

Commodities:

Iron ore futures retreated from a one-month high, as investors weighed whether a recovery in Chinese demand will be sustainable.

In other news, the risk of Hurricane Beryl to production in the Gulf of Mexico diminished.

Australia:

There was no major economic data published on Friday.

Eurozone:

Retail sales in the eurozone economy rose 0.1%, after a decline of 0.2%. In year-on-year terms, retailing turnover grew 0.3%.

European Central Bank Governing Council member Madis Muller said officials must be cautious on further monetary loosening as wage gains and service-price growth remain elevated.

China:

The People's Bank of China took another step toward selling government bonds, saying it has hundreds of billions of yuan of the securities at its disposal after signing agreements with lenders.

United Kingdom:

Sir Keir Starmer is Britain's new Prime Minister after winning the general election in a historic Labour landslide, which ended the Tories' 14-year grip on power. The Tories saw their worst ever performance. Starmer secured a majority of more than 170 seats. He named Rachel Reeves as the first female chancellor of the exchequer.

United States:

The labour market showed signs of cooling, as the unemployment rate edged higher in June and the pace of jobs growth in recent months was shown to have been lower than previously reported.

The economy added 206,000 jobs last month. That exceeded the 190,000 expected by consensus, but revisions to April and May data meant employment during those two months was 111,000 lower than initially reported.

Friday's non-farm payrolls report also showed that the US unemployment rate increased to 4.1% in June - its highest since 2021. It is up slightly from 4.0% in May. It reflected a higher participation rate. The consensus forecast was for an outcome of 4.0%.

New York Federal Reserve President John Williams said that while inflation has cooled recently toward the Fed's 2% target, policymakers still "have a way to go."

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