



2 September 2024

MORNING REPORT

Today's economic developments and market movements.

Key themes

US equities finished the month in the green after solid gains on Friday.

Treasury yields continued to oscillate around well explored territory finishing up modestly across the curve.

Key US data on inflation and household finances did little to shift the dial on expectations for rate cuts.

The US dollar was firmer, gaining against every G-10 peer, taking on more ground back above 101.

Commodities were broadly softer with oil falling on reports that crude production was ordered to resume in three Libyan oil fields.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	62.6	0.0%
AUD/USD	0.6767	-0.5%
AUD/JPY	98.87	0.3%
AUD/GBP	0.5153	-0.2%
AUD/NZD	1.0830	-0.4%
AUD/EUR	0.6124	-0.2%
AUD/CNH	4.7967	-0.6%
AUD/SGD	0.8833	-0.1%
AUD/HKD	5.2770	-0.5%
AUD/CAD	0.9127	-0.4%
EUR/USD	1.1049	-0.3%
USD/JPY	146.12	0.8%
USD Index	101.70	0.4%

Equities	Close	Change
S&P/ASX 200	8,092	0.6%
S&P 500	5,648	1.0%
Japan Nikkei	38,648	0.7%
Hang Seng	17,989	1.1%
Euro Stoxx 50	4,958	-0.2%
UK FTSE100	8,377	0.0%
VIX Index	15	-4.2%

Commodities	Current	Change
CRB Index	277.03	-1.0%
Gold	2503.39	-0.7%
Copper	9142.77	-0.1%
Oil (WTI futures)	73.55	-3.1%
Coal (coking)	204.00	-2.4%
Coal (thermal)	145.25	0.5%
Iron Ore	101.00	-0.8%
ACCU	35.30	-0.1%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.35	0.01
90 day BBSY	4.44	0.01
180 day BBSY	4.58	0.02
1 year swap	4.06	0.03
2 year swap	3.75	0.01
3 year swap	3.64	0.02
4 year swap	3.63	0.03
5 year swap	3.67	0.03
6 year swap	3.74	0.03
7 year swap	3.82	0.03
8 year swap	3.89	0.03
9 year swap	3.95	0.03
10 year swap	4.13	0.03

Government Bond Yields	Close	Change
Australia		
3 year bond	3.55	0.00
10 year bond	3.97	0.01
United States		
3-month T Bill	4.97	-0.01
2 year bond	3.92	0.02
10 year bond	3.90	0.04
Other (10 year yields)		
Germany	2.30	0.02
Japan	0.90	0.00
UK	4.02	0.00

Sydney Futures Exchange	Current	Change
10 yr bond	4.00	0.03
3 yr bond	3.58	0.04
3 mth bill rate	4.37	0.01
SPI 200	8,031	-0.2%

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:

US equities finished in the green on Friday to finish the month broadly higher. The S&P 500 gained 1.0% to be 2.3% higher for the month. The NASDAQ had a slightly larger 1.1% gain on Friday but was up just 0.7% for the month.

European markets struggled to gain traction. The Euro Stoxx 50 finished 0.2% lower, while the German Dax and London's FTSE 100 both finished flat.

The ASX 200 rose 0.6% on Friday but futures pulled back around 0.2% after the close. Aussie equities were flat for the month.

Interest rates:

US treasury yields were firmer across the curve on Friday but remained comfortably within recent ranges. The 2-year yield finished up 2 basis points at 3.92%, while the 10-year yield gained 4 basis points to 3.90%. The 2-10-year spread continued to narrow but again failed to disinvert.

Three rate cuts are fully priced in for the Fed this year with around an 80% chance of a larger 50 basis point cut at one of the remaining meetings.

Aussie bond futures sold off after the close on Friday. The 3-year futures yield is up 4 basis points at 3.58%, while the 10-year futures yield is up 3 basis points at 4.00%. The implied odds of an RBA rate cut this year are sitting around 75%.

Foreign exchange:

The US dollar was firmer, continuing to mark ground above 101. The DXY index traded from a low of 101.25 to a high of 101.78 before closing only slightly back from the day's high around 101.70.

The Aussie dollar pulled back more firmly below 68 cents after struggling to make any significant move above the key level. The AUD/USD fell from a high of 0.6816 to a low of 0.6752 and was trading a little higher at 0.6767 this morning.

The British Pound, the Japanese Yen and the Euro also sold off against the Greenback and in early trade this morning were sitting around 1.3128, 146.12 and 1.1049, respectively.

Commodities:

Bloomberg reported that three Libyan oil fields were ordered to gradually resume pumping amid a feud between the nation's rival governments. The Sarir field — with a capacity of 145,000 barrels a day — already restarted. Production at major site Waha was slashed further.

Oil futures tumbled, the West Texas Intermediate (WTI)

Today's key data and events

Time	Event	Exp	Prev
10:30am	JN Nikkei Mfg PMI Aug Final		49.5
11:00am	AU MI Inflation Gauge y/y Aug		2.8%
11:30am	AU Inventories Q2	-0.3%	1.3%
	AU Company Profits Q2	-2.0%	-2.5%
	AU ANZ Job Ads Aug		-3.0%
	AU Building Approvals Jul	2.5%	-6.5%
11:45am	CH Caixin Mfg PMI Aug	50.0	49.8
6pm	EZ HCOB Mfg PMI Aug Final	45.6	45.6
6:30pm	UK S&P Mfg PMI Aug Final	52.5	52.5

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.

contract was down 3.1% to US\$73.55 per barrel.

Metals were broadly softer, but only modestly so and remained comfortably within recent ranges. Iron ore futures slipped 0.8% to US\$101.00, while copper was down 0.1% to US\$9142.77.

Australia:

National home values increased 0.5% in August, the 19th consecutive monthly increase in home values. This was slightly above the downwardly revised 0.3% increase seen through July.

The pace of growth is showing clear signs of slowing with the quarterly increase in national home values (1.3%) now less than half the rate of growth in the same three month period of 2023 (2.7%).

Retail sales were flat in July, disappointed expectations despite the boost to households income from the launch of 'stage 3' tax cuts.

Basic food was the only store-type to record a gain. Weakness in the month centred on clothing and department stores.

Retail spending data adds to evidence that most of the tax cut boost to incomes was saved rather than spent.

Total private sector credit increased 0.5% in July with annual growth ticking up slightly to 5.7%.

Growth in both housing and business credit are ticking up slightly but not in a manner that suggests momentum is shifting materially. There remains a decent underlying demand for credit which has been supporting both business and housing credit despite broad economic headwinds.

China:

China's official Purchasing Manager's Indices (PMI) were largely as expected in August. The manufacturing PMI came in a touch weaker at 49.1 versus 49.4 a month ago. But the services PMI edged higher from 50.2 to 50.3. Despite the positive surprise for services overall, the employment index deteriorated further, now 45.2 compared to 45.5 a month ago and 47.0 six months ago

(February).

Broadly, versus the five years prior to the pandemic, the PMIs remain consistent with GDP growth around 5.0%; but the trend deterioration in services employment highlights the lack of pass-through of export income to the domestic economy and the cost to consumption of from challenging conditions in the residential housing market.

Eurozone:

The consumer price index (CPI) rose 0.2% in August, meeting expectations. Annual headline inflation moderated from 2.6% in July to 2.2% in August as a result, and annual core inflation edged lower from 2.9% to 2.8%.

The unemployment rate edged lower from 6.5% to 6.4%, a new historic low.

New Zealand:

The ANZ consumer confidence index rose 4.9% in August to 92.2. This was the strongest confidence reading since February this year, however, sentiment remains weak by historical standards.

New building permits surged 26.2% in July - the strongest monthly increase in over four years. This fully unwound a 17% fall in approvals the month prior.

United States:

US personal income marginally beat expectations in July, growing 0.3%. Personal spending accelerated as expected to 0.5% from 0.3%, with real personal spending a touch above the consensus expectation and the June outcome at 0.4%.

The savings rate continued to edge lower as a result to 2.9% in July from 4.0% six months earlier.

Both headline and core PCE inflation came in at a benign 0.2% in July, again in line with expectations, leaving annual inflation at 2.5% and 2.6%, respectively.

University of Michigan consumer sentiment was little changed in the final estimate for August at 67.9, close to 30% below the average of the 5 years before the pandemic. 1-year inflation expectations slipped to 2.8% as the 5-year measure remained unchanged at 3.0%, both in line with historic averages.



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