



1 October 2024

MORNING REPORT

Today's economic developments and market movements.

Key themes

US equities finished higher, supported by US Fed Chair Powell's comment which characterised the economy as "strong." European markets finished lower dragged down by automakers. Asian markets were mixed, with China's stock exchange having its largest one-day gain in more than a decade.

Bond markets also responded to Powell's comment that the FOMC "is not a committee that feels like it's in a hurry to cut rates quickly" leading to an increase in yields, particularly at the policy sensitive 2-year end of the curve.

The US dollar index was higher, while the Aussie outperformed on the back of a further 7.5% increase in iron ore and a similar gains in coking coal.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	62.8	0.2%
AUD/USD	0.6915	0.1%
AUD/JPY	99.31	1.2%
AUD/GBP	0.5171	0.1%
AUD/NZD	1.0895	0.0%
AUD/EUR	0.6211	0.4%
AUD/CNH	4.8463	0.5%
AUD/SGD	0.8884	0.5%
AUD/HKD	5.3755	0.2%
AUD/CAD	0.9354	0.2%
EUR/USD	1.1135	-0.2%
USD/JPY	143.60	1.0%
USD Index	100.76	0.4%

Equities	Close	Change
S&P/ASX 200	8,270	0.7%
S&P 500	5,762	0.4%
Japan Nikkei	37,920	-4.8%
Hang Seng	21,134	2.4%
Euro Stoxx 50	5,000	-1.3%
UK FTSE100	8,237	-1.0%
VIX Index	16.73	-1.4%

Commodities	Current	Change
CRB Index	284.94	-0.3%
Gold	2634.58	-0.9%
Copper	9875.03	-1.0%
Oil (WTI futures)	68.17	0.0%
Coal (coking)	239.00	7.2%
Coal (thermal)	146.55	0.2%
Iron Ore	106.90	7.5%
ACCU	36.50	-0.7%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.35	0.00
90 day BBSY	4.48	-0.01
180 day BBSY	4.67	-0.01
1 year swap	3.99	0.03
2 year swap	3.65	0.05
3 year swap	3.55	0.05
4 year swap	3.54	0.05
5 year swap	3.59	0.04
6 year swap	3.66	0.05
7 year swap	3.74	0.05
8 year swap	3.81	0.05
9 year swap	3.88	0.04
10 year swap	4.08	0.06

Government Bond Yields	Close	Change
Australia		
3 year bond	3.54	0.01
10 year bond	3.97	0.01
United States		
3-month T Bill	4.49	0.01
2 year bond	3.64	0.08
10 year bond	3.78	0.03

Other (10 year yields)		
Germany	2.12	-0.01
Japan	0.86	0.01
UK	4.00	0.03

Sydney Futures Exchange	Current	Change
10 yr bond	4.00	0.00
3 yr bond	3.48	0.02
3 mth bill rate	4.23	0.02
SPI 200	8,274	-0.4%

Data as at 7:30am 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 staged a late rally to finish in the green after major indices flipped between gain and loses throughout the session. Energy and IT stocks outperformed to help drive equities higher.

The S&P 500 Index climbed 0.4% to set a fresh record. The technology-heavy Nasdaq was also 0.4% higher, while the Dow Jones was broadly unchanged (up 0.04%).

European markets finished lower dragged down by automakers after Volkswagen and Stellantis warned on profits. The Euro Stoxx 50 closed 1.3% lower, the DAX was 0.8% lower, while the FTSE 100 was down 1.0%.

Asian markets were mixed. China's CSI 300 closed 8.5% higher - its best single day in more than a decade. This comes on the back of the stimulus announced last week and before the Golden week holiday. The Hang Seng climbed 2.4%, while Japan's Nikkei declined 4.8% on concerns the next prime minister could adopt policies that wouldn't be very friendly to the economy and markets.

The ASX200 index closed 0.7% higher, led by materials stocks on the back of the brighter outlook for China and higher commodity prices. The gain was broad based with eight of eleven sectors finishing higher. Futures are pointing to a negative open this morning.

Interest rates:

US bond yields were higher at the shorter end of the curve. The US 2-year bond yield increased 8 basis points to 3.64%. The 10-year treasury yield increased 3 basis point to 3.78%. Longer dated bond yields were also slightly higher across Europe and Asia.

Interest-rate markets are pricing in around 70 basis points of cuts by the US Fed over the remainder of 2024 and 188 basis points by the end of 2025.

Australian yields were also slightly higher. The 3-year government bond yield (futures) increased 2 basis point to 3.48%, while the 10-year government bond yield (futures) unchanged at 4.0%.

Markets are pricing 18 basis of cuts by the end of 2024. The first full rate cut is expected by February, with around 115 basis points of cuts expected over 2025.

Foreign exchange:

The US dollar index was higher (0.4%) on the back of yield support. The DXY Index reached a high of 100.92 before falling to be around 100.78. Consistent with action last week, the DXY index has been unable to break through 101.00. Moving forward, PMIs, Fed'speak

Today's key data and events

Time	Event	Exp	Prev
11:30am	AU Building Approvals Aug	-4.3%	10.4%
	AU Retail Sales Aug	0.4%	0.0%
7:00pm	EZ CPI Sep y/y	0.0%	0.1%
9:30am	JN Job to Applicant ratio Aug		1.24
	JN Tankan Manufacturers Index Q3	12	13
7:45am	NZ Building Permits Aug		26.2%
6:30pm	UK S&P Manufacturing PMI Sep	51.5	51.5
11:45pm	US S&P Manufacturing PMI Sep	47	47
12:00am	US Construction Spending Aug	0.2%	-0.3%
	US ISM Mfg Sep	47.6	47.2
1:00am	Fed's Bostic Gives Opening Remarks		

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.

and labour data will drive price action.

The Aussie continue to outperform, with the AUD/USD pair hitting fresh 18-months highs of 0.6942. The brighter growth prospects for China, which is supporting a massive turnaround in key commodity prices, is providing the Aussie with a tailwind.

The USD/JPY was higher paring back some of the losses recorded in the previous session. The pair increased 1.0% to 143.60, with the pace of the increasing stepping up following Powell's comments.

Commodities:

Iron ore continues to benefit from the significant policy intervention announced last week. Iron ore futures were up a further 7.5% to US\$106.90/t. Singapore iron ore futures are up around 25% over the last five trading days. Coking coal also jumped 7.2% overnight.

Oil was flat with West Texas Intermediate oil futures remaining at US\$68.17 per barrel. This stabilisation comes after sharp falls last week on the back of reports suggesting Saudi Arabia is preparing to drop its unofficial \$100 per barrel oil price target in a bid to regain market share.

Australia:

Private sector credit did not bring any major surprises showing that the headline growth remained unchanged in August at 0.5%*mth*, a pace in line with the average over the last twelve months. After inching to a fourteen-month high of 5.7%*yr* in the prior month, the annual pace of growth was also unchanged.

Looking at major components, at the headline level growth of housing credit was a touch softer vs July, at 0.4%*mth*, down from 0.5%*mth*. However, at two decimal places, the move was merely -1.5 basis point. But it was sufficient to push the annual pace up by 0.1ppt to a sixteen-month high of 5.0%*yr*. Within housing credit, both owner occupier and investor categories also recorded 0.4%*mth* increases, a similar rate to prior months for both series.

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In contrast, business credit growth increased from 0.5%*mt* to 0.7%*mt*, a pace slightly exceeding its twelve-month average. Nevertheless, the annual pace printed 7.7%*yr* for third consecutive month.

China:

The official NBS manufacturing PMI firmed in September, rising from 49.1 to 49.8. The services PMI meanwhile edged lower from 50.3 to 50.0. Having outperformed the NBS measures of late, Caixin's manufacturing and non-manufacturing PMIs deteriorated to 49.3 and 50.3 respectively from 50.4 and 51.6. All these outcomes are historically consistent with 5% GDP growth. The detail of each of the surveys was mixed. Highlighting the significance of last week's policy support, the employment indexes remained weak and fragile.

In a speech marking the 75th anniversary of the founding of the People's Republic of China, President Xi provided no additional detail on stimulus, but urged caution on the outlook, noting "We must be mindful of potential dangers and be prepared for rainy days".

New Zealand:

The Business Outlook Index surged to 60.9 in September from 50.6 in August. This was the highest read since April 2014, on the back of RBNZ's recent rate cut. Expected own activity jumped and past activity also improved. Export intentions strengthened, as did investment intentions.

Japan:

Industrial production declined 3.3% in August, following a 3.1% increase in July. The outcome was well below the fall on 0.5% expected by the market. It was the fifth monthly decline in 2024, mainly due to a sharp fall in the production of motor vehicles; electrical machinery, and information and communication electronics equipment; and production machinery. Industrial production declined 4.9% in year ended terms.

Retail sales increased 0.8% in August, the largest gain in three months, following a 0.2% gain in July. This was above the gain of 0.5% expected by the market.

United States:

The MNI Chicago PMI edged higher in September from 46.0 to 46.6 but, at that level, remains materially below the 5-year average. New orders, production and employment were all soft in the month. The Dallas Fed manufacturing index was meanwhile robust at -9.0 in September, up from 9.7 in August.

Fed Chair Powell provided a positive view on the outlook for US activity and inflation overnight. The economy was characterised as "strong" overall and the labour market "solid, having cooled from their previously overheated state". The Committee has "growing confidence" that inflation is "moving sustainably" to target, and this was

the justification for September's 50bp cut. But, during Q&A, Chair Powell also noted this "is not a committee that feels like it's in a hurry to cut rates quickly". Rather they remain data dependent and expect "policy will move over time toward a more neutral stance".

United Kingdom:

GDP expanded 0.5% in Q2 2024, slightly below the first estimate of 0.6% and the 0.7% recorded in Q1. Compared with the first estimate, Government spending and exports were revised lower while investment was revised higher.

House prices rose 0.7% in September to be 3.2% in annual terms - the fastest pace since November 2022. This was stronger than the 0.2% expected by the market.



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