

16 September 2024

# MORNING REPORT

Today's economic developments and market movements.

## Key themes

Markets finished last week with a solid bid in risk assets ahead of a slew of event risk this week.

The US Federal Reserve, the Bank of England and the Bank of Japan all have policy meetings and unlike recent policy decisions, there is plenty being left for the imagination.

US and European equities finished in the green on Friday; the former recording the strongest weekly gain since March 2023.

Yields were broadly lower across developed markets, with the US 2-10-year yield curve disinverting further as rate cuts grow nearer.

The US dollar was a little softer, the Japanese Yen punched fresh year-to-date highs, while the Aussie dollar gave up some of the week's gains on Friday.

## Data snapshot

FX Last 24 hrs	Current	Change	AUS Interest Rate Swaps	Last	Change
TWI	61.6	0.0%	30 day BBSY	4.36	0.00
AUD/USD	0.6704	-0.3%	90 day BBSY	4.47	0.00
AUD/JPY	94.41	-1.0%	180 day BBSY	4.63	0.00
AUD/GBP	0.5109	-0.3%	1 year swap	3.93	0.00
AUD/NZD	1.0886	0.1%	2 year swap	3.57	0.02
AUD/EUR	0.6053	-0.3%	3 year swap	3.44	0.02
AUD/CNH	4.7606	-0.5%	4 year swap	3.42	0.04
AUD/SGD	0.8704	-0.5%	5 year swap	3.47	-0.08
AUD/HKD	5.2285	-0.3%	6 year swap	3.53	-0.07
AUD/CAD	0.9114	-0.2%	7 year swap	3.61	-0.06
EUR/USD	1.1076	0.0%	8 year swap	3.68	-0.06
USD/JPY	140.84	-0.7%	9 year swap	3.74	-0.06
USD Index	101.11	-0.2%	10 year swap	3.92	-0.04

  

Equities	Close	Change	Government Bond Yields	Close	Change
S&P/ASX 200	8,100	0.3%	<b>Australia</b>		
S&P 500	5,626	0.5%	3 year bond	3.43	-0.06
Japan Nikkei	36,582	-0.7%	10 year bond	3.82	-0.03
Hang Seng	17,369	0.7%	<b>United States</b>		
Euro Stoxx 50	4,844	0.6%	3-month T Bill	4.76	-0.09
UK FTSE100	8,273	0.4%	2 year bond	3.58	-0.06
VIX Index	16.56	-3.0%	10 year bond	3.65	-0.02
			<b>Other (10 year yields)</b>		
<b>Commodities</b>	<b>Current</b>	<b>Change</b>	Germany	2.15	0.00
CRB Index	273.84	0.3%	Japan	0.85	-0.02
Gold	2577.70	0.8%	UK	3.77	-0.01
Copper	9190.67	1.0%			
Oil (WTI futures)	68.65	-0.5%	<b>Sydney Futures Exchange</b>	<b>Current</b>	<b>Change</b>
Coal (coking)	187.00	0.5%	10 yr bond	3.84	0.01
Coal (thermal)	134.60	0.4%	3 yr bond	3.43	0.00
Iron Ore	92.60	-2.1%	3 mth bill rate	4.17	0.02
ACCU	36.43	0.1%	SPI 200	8,116	0.2%

Data as at 7:45am 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:

Equities in the US and Europe finished the week on a positive note continuing to rally into this week's slew of central bank meetings.

The S&P 500 rose 0.5% on Friday to end 4.0% higher over the week, the strongest weekly performance since March 2023. The NASDAQ and the Dow Jones were both 0.7% higher on Friday to finish the week up 6.0% and 2.6%, respectively.

Across the Atlantic the Euro Stoxx 50 closed 0.6% higher on Friday, while the German Dax and the UK's FTSE 100 were up 1.0% and 0.4%, respectively.

Shares were mixed in Asia on Friday. Hong Kong's Hang Seng (+0.8%) and the ASX 200 (+0.3%) were both firmer while stock were down in Japan (-0.7%) and in Shanghai (-0.4%).

## Interest rates:

US treasury yields moved lower across the curve on Friday with the 2-10-year curve continuing to disinvert as rate cuts draw nearer. The 2-year yield finished down 6 basis points at 3.58%, while the 10-year yield was 2 basis points lower at 3.65%.

There remains no clear consensus on a 25 or 50 basis point cut from the Fed this week with market pricing reflecting around a 30% chance of a larger move. With over 100 basis points of cuts still priced into the curve by the end of 2024, markets are betting the Fed will have to move by 50 basis points at some stage this year.

Yields were around 1-3 basis points lower across the curve in Europe, where 2-10-year curves in the UK and Germany remain marginally inverted.

Aussie bond futures were little changed with the 3-year yield flat at 3.4% and the 10-year yield 1 basis point higher at 3.84%. Market pricing for an RBA rate cut this year has crept up above 80% and there is around 125 basis points of loosening priced in by the end of 2025.

## Foreign exchange:

The US dollar edged lower on Friday, the DXY briefly dipping below 101 before retracing most of the fall to close at 101.11. The US dollar has already had a few looks below 101 in recent weeks but so far has not looked to collapse meaningfully lower. This week's Fed meeting could test that support, particularly if a larger rate cut is delivered.

The Aussie dollar gave up part of its impulsive move back through 67 cents on Friday, falling from a high of 0.6733 to a low of 0.6692 before finishing back above the 67 handle. This week's run of central bank meetings

## Today's key data and events

Time	Event	Exp	Prev
7pm	EZ Trade Balance Jul	€15.0bn	€17.5bn
10:30pm	US NY Empire Mfg Survey Sep	-4.3	-4.7

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.

will likely dictate whether this is a bullish consolidation or a more material fatiguing in Aussie dollar strength. The iron ore price and weak Chinese data over the weekend doesn't help the Aussie's cause, but domestic labour market data on Thursday could be the catalyst for a rethink of existing rate cut expectations should it remain firm, providing potential for a fresh burst of energy in the Aussie following the Fed decision earlier that morning.

The Japanese Yen extended gains on Friday, the USD/JPY touching a fresh year-to-date low of 140.29. In early trade this morning the Yen was trading around 140.84. The USD/JPY could see some volatility this week should Jerome Powell and/or Governor Ueda provide a significant surprise.

The euro and the British Pound were both little changed on Friday, continuing to tradig around the middle of recent ranges. At the time of writing the euro and the Pound were trading at 1.1076 and 1.3128, respectively.

## Commodities:

Hedge funds turned net bearish on Brent crude for the first time on record as concerns about an oversupply of oil hammer futures prices. West Texas Intermediate (WTI) futures were 0.5% lower at US\$68.65 per barrel while Brent was also 0.5% lower at US\$71.61 per barrel.

Iron ore pulled back but remained around recent lows as China's steel production fell by more than 10% over the year to August. Futures in Singapore were 2.1% lower at US\$92.60.

Gold popped higher again on Friday lifting 0.8% to a fresh record high of US\$2,577.70 per ounce. A fragile geopolitical backdrop, the ongoing US presidential election and the expected decline in global policy rates remain supportive of gold.

## Australia:

There were no major economic data releases on Friday.

## New Zealand:

The BusinessNZ manufacturing purchasing managers' index (PMI) edged higher in August to 45.8 from 44.4 previously. The result marked the second consecutive monthly increase in the manufacturing PMI, though the reading still remains at the low end of its range from the last two years and indicative of a contraction in manufacturing activity.

## **China:**

Partial economic indicators for August came out on the softer side over the weekend again revealing a sluggish domestic demand impulse.

Retail sales rose 2.1% over the year to August, falling short of expectations and slowing on July's 2.7% annual gain. Industrial production also missed the mark, rising 4.5% over the year to August and extending a broad slowdown underway over the course of 2024.

Fixed asset investment broadly met expectations, rising 3.4% through the year with the familiar cross-currents from weak property investment and growing investment in advanced manufacturing underlying the headline number.

## **Eurozone:**

Industrial production met expectations in July, declining 0.3%. The annual rate was a touch better-than-expected at -2.2%, while June's result was edged up to flat from -0.1%.

## **United States:**

University of Michigan consumer sentiment rose from 67.9 in August to 69.0 in September, still a long way below the average of 2019 of 96.

Readings on current conditions and expectations both improved in the month. The 1-year ahead inflation expectations series eased to 2.7% from 2.8% in September, while the 5-10 year view on inflation edged up to 3.1%. Both are around average levels for the pre-pandemic period, when inflation consistently printed below target.

US import prices fell 0.3% in August to be up a benign 0.8% over the past year.



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