



17 September 2024

MORNING REPORT

Today's economic developments and market movements.

Key themes

Interest rate sensitive stocks squeezed out further gains as the likelihood of a 50-basis point cut to kick off the Fed's easing cycle increased.

Markets are now pricing 43 basis points of cuts when the Fed meets later this week – up from around 32 basis points just a week ago.

US and European bond yields were generally lower. The US dollar continues to be soft with the Aussie outperforming on the back of yield support.

Improved risk sentiment saw commodity prices improve, with the price of oil increasing to be above US\$70 per barrel.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	61.5	-0.2%
AUD/USD	0.6752	0.7%
AUD/JPY	95.00	0.6%
AUD/GBP	0.5111	0.0%
AUD/NZD	1.0890	0.0%
AUD/EUR	0.6066	0.2%
AUD/CNH	4.7917	0.7%
AUD/SGD	0.8746	0.4%
AUD/HKD	5.2618	0.6%
AUD/CAD	0.9172	0.7%
EUR/USD	1.1130	0.5%
USD/JPY	140.70	-0.2%
USD Index	100.76	-0.3%

Equities	Close	Change
S&P/ASX 200	8,122	0.3%
S&P 500	5,633	0.1%
Japan Nikkei	36,582	-0.7%
Hang Seng	17,422	0.3%
Euro Stoxx 50	4,828	-0.3%
UK FTSE100	8,278	0.1%
VIX Index	17.14	3.5%

Commodities	Current	Change
CRB Index	276.86	1.1%
Gold	2582.92	0.2%
Copper	9190.67	1.0%
Oil (WTI futures)	70.52	2.1%
Coal (coking)	189.00	1.1%
Coal (thermal)	132.90	-1.3%
Iron Ore	92.45	-1.7%
ACCU	36.43	0.1%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.36	-0.01
90 day BBSY	4.47	-0.01
180 day BBSY	4.62	-0.01
1 year swap	3.92	-0.01
2 year swap	3.53	-0.03
3 year swap	3.41	-0.03
4 year swap	3.39	-0.03
5 year swap	3.44	-0.03
6 year swap	3.51	-0.03
7 year swap	3.58	-0.03
8 year swap	3.65	-0.03
9 year swap	3.72	-0.02
10 year swap	3.90	-0.02

Government Bond Yields	Close	Change
Australia		
3 year bond	3.41	-0.02
10 year bond	3.81	0.00
United States		
3-month T Bill	4.74	-0.02
2 year bond	3.55	-0.03
10 year bond	3.62	-0.03
Other (10 year yields)		
Germany	2.12	-0.03
Japan	0.85	0.00
UK	3.76	-0.01

Sydney Futures Exchange	Current	Change
10 yr bond	3.80	-0.02
3 yr bond	3.30	-0.01
3 mth bill rate	4.15	0.00
SPI 200	8,168	0.7%

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.

Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.



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Share markets:

US equities were mixed. Interest rate sensitive sectors were higher as the Fed's first rate cut of the cycle looms closer. Financials, consumer staples and energy stocks helped push the Dow 0.6% higher. Tech stocks were lower. This dragged on the S&P 500 which squeezed out a small gain of 0.1% and led the tech heavy Nasdaq 0.5% lower.

European stocks were generally lower, with the German DAX down 0.4%, the Euro Stoxx 500 losing ground late in the session to close 0.3% in the red and the FTSE 100 finishing broadly unchanged after flipping between small gains and losses through the session.

Looking at the Asian markets, Tokyo's Nikkei was down 0.7% yesterday, stocks in China were 0.4% lower but finished 0.3% higher in Hong Kong.

The ASX 200 rose for the third consecutive session, up 0.3% to close at a fresh record high. Seven of eleven sectors were higher, led by financials stocks. Futures markets are pointing to a solid open this morning.

Interest rates:

US Treasury yields were lower ahead of the Fed's September meeting later this week. The 2-year treasury yield declined 3bps to 3.55%. The 10-year treasury yield also declined 3 bps to 3.62%.

Markets are still torn between a 50-basis point and 25-basis point cut but are now pricing a higher chance of a 50-basis point cut when the Fed meets. There is around a 70% chance of a 50-basis point cut (or a 43-basis points of cuts priced in for September), this is well up on the 30% chance priced in just a week ago. Markets have priced in around 110 basis points of cuts through to the end of the year, and 240 basis points of cut by the end of 2025.

European yields were also generally lower. In the UK, the 2-year and 10-year Gilt yields both declined by 1 basis point. The OIS curve has a 25% chance of a rate cut when the Bank of England (BoE) meets later this week. Another full rate cut has been priced in for the BoE's Movement meeting.

The Australian yield curve flattened slightly overnight, with the 3-year futures yield falling 1 basis point to 3.30% and the 10-year futures yield falling 2 basis point to 3.80%.

Today's key data and events

Time	Event	Exp	Prev
7:00pm	EZ ZEW Expectations Sep		17.9
10:30pm	US Retail Sales Aug		1.0%
11:15pm	US Industrial Production Aug		-0.6%
12:00pm	US Business Inventories Jul		0.3%
	US NAHB Housing Market Index Sep		39

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 continued to move lower at the start of this week, with the DXY opening at 101.04 to finishing at 100.67, near the lows observed in late-August. The DXY has not breached the level of 100.50 so far this year, and this week's Fed meeting could test that support, particularly if a larger rate cut and/or more dovish guidance is delivered.

The Aussie dollar started the week on stronger footing, lifting from 0.6704 to 0.6752, marking a 0.7% increase, on the back of yield support. The run of central bank meeting this week, alongside domestic labour market data, are the key risks for the Aussie.

The EUR/USD pair rose 0.5% to 1.1172, following comments from ECB officials that suggested another rate cut in October was unlikely, underscoring their preference to follow a gradual meeting-by-meeting policy easing approach.

The Yen extended its gains against the US dollar at the start of the week, from 140.85 before briefly testing below 140, ultimately finishing at 140.70, or -0.2% lower over the day. There could be volatility in this pair later this week, contingent on the outcomes and guidance coming out of the FedC and BoJ meetings.

Commodities:

Commodities were mixed overnight.

Oil had a strong showing, with WTI futures moving 2.1% higher to US\$70.09 per barrel as supply concerns from Libya offset recent pressures from waning global demand.

Iron ore fell -1.7% to US\$92.45 per tonne as concerns around the outlook for the Chinese economy remain.

Metals benefitted from the improved risk tone, with copper rising to \$US9190.67/t.

Australia:

There were no major economic data releases on Monday.

New Zealand:

The BusinessNZ services PMI ticked higher from a revised figure of 45.2 in July to 45.5 in August. While this marked the second consecutive monthly increase from June's low of 41.0, the services sector remains



stuck in contractionary territory. This has been the case for much of the year, consistent with official data pointing to weakening discretionary consumer spending.

Eurozone:

The trade surplus narrowed slightly, from €17bn in June to €15.5bn in July, in line with expectations. Quarterly measures of labour costs also decelerated, from 5.0%yr in Q1 to 4.7%yr in Q2. While this is off the peak of 5.9%yr in Q4 2022, it is still well above the pre-pandemic norms, within the 2-3%yr range.

United States:

The New York Fed Empire State manufacturing index surprised to the upside in September, rising from -4.7 to +11.5, the first positive reading this year and the highest reading in over two years. Driving the increase was a bounce in new orders, hours worked and views on the six-month ahead outlook. Given this data has a history of volatility, more weight should be given to the underlying trend, which is consistent with weak conditions in the manufacturing sector.



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