



2 October 2024

# MORNING REPORT

Today's economic developments and market movements.

## Key themes

Air strikes from Iran into Israel marked a significant escalation in the Middle East overnight, with Israel's Prime Minister Benjamin Netanyahu vowing to retaliate.

Markets responded to the news in textbook fashion, selling risk in favour of traditional safe-haven assets. US and other developed market equities retreated and yield curves shift down and flattened.

Crude markets finally reacted to the risk that escalating conflict could disrupt supply, with oil futures jumping overnight and gapping higher at the open this morning.

## Data snapshot

FX Last 24 hrs	Current	Change
TWI	63.1	0.5%
AUD/USD	0.6882	-0.4%
AUD/JPY	98.77	-0.5%
AUD/GBP	0.5182	0.2%
AUD/NZD	1.0960	0.6%
AUD/EUR	0.6217	0.2%
AUD/CNH	4.8390	-0.1%
AUD/SGD	0.8863	-0.2%
AUD/HKD	5.3488	-0.5%
AUD/CAD	0.9286	-0.7%
EUR/USD	1.1070	-0.6%
USD/JPY	143.51	0.0%
USD Index	101.19	0.4%

Equities	Close	Change
S&P/ASX 200	8,209	-0.7%
S&P 500	5,709	-0.9%
Japan Nikkei	38,652	1.9%
Hang Seng	21,134	2.4%
Euro Stoxx 50	4,954	-0.9%
UK FTSE100	8,277	0.5%
VIX Index	19.26	15.1%

Commodities	Current	Change
CRB Index	286.37	0.5%
Gold	2662.04	1.1%
Copper	9716.07	-1.6%
Oil (WTI futures)	70.77	2.4%
Coal (coking)	234.00	-2.1%
Coal (thermal)	142.65	-2.7%
Iron Ore	108.40	-1.6%
ACCU	36.50	0.0%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.35	0.00
90 day BBSY	4.48	0.00
180 day BBSY	4.67	0.00
1 year swap	3.99	-0.01
2 year swap	3.64	-0.01
3 year swap	3.52	-0.03
4 year swap	3.52	-0.03
5 year swap	3.56	-0.03
6 year swap	3.63	-0.04
7 year swap	3.70	-0.04
8 year swap	3.77	-0.05
9 year swap	3.83	-0.05
10 year swap	4.03	-0.05

Government Bond Yields	Close	Change
<b>Australia</b>		
3 year bond	3.55	0.01
10 year bond	4.01	0.04
<b>United States</b>		
3-month T Bill	4.46	0.00
2 year bond	3.60	-0.04
10 year bond	3.73	-0.05
<b>Other (10 year yields)</b>		
Germany	2.04	-0.09
Japan	0.86	-0.01
UK	3.94	-0.06

Sydney Futures Exchange	Current	Change
10 yr bond	3.96	-0.05
3 yr bond	3.46	-0.03
3 mth bill rate	4.22	-0.01
SPI 200	8,254	0.0%

Data as at 8:15am 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.



**Illiana Jain**  
Economist, Westpac Group  
P: +61 403 908 032  
E: illiana.jain@westpac.com.au



**Jameson Coombs**  
Economist, Westpac Group  
P: +61 401 102 789  
E: jameson.coombs@westpac.com.au

### Share markets:

Escalations in the Middle East saw US equities pull back as risk sentiment soured. This was led by the NASDAQ down 1.5%. The S&P 500 was down 0.9% while the Dow Jones closed 0.4% lower. The Euro Stoxx 50 was also down 0.9%, while London's FTSE 100 was the only major developed market index to rise, gaining 0.5%.

Japan's Nikkei also rose 1.9% with most of the gains occurring at open.

The ASX 200 closed 0.7% lower yesterday, pulling back from its record high in the previous session which was underpinned by the announcement of significant policy support in China.

### Interest rates:

Yields curves across the US, UK and Germany were broadly lower and flatter, reflecting the risk off mood and demand for safe haven assets. The bid tone in Europe was helped along by a slightly softer headline reading on the harmonised inflation measure, while a sizeable fall in the ISM manufacturing prices paid index firmed the case for a sustainable return to the inflation target in the US.

The US 2-year yield dropped 4 basis points to 3.60%, while the 10-year yield fell 5 basis points to 3.73%. Markets are still expecting another two 25-basis point rate cuts this year with an almost 70% chance of a larger 50 basis point cut in either of the remaining meetings this year.

The 10-year UK Gilt was down 6 basis points to 3.94% and the 2-year down 3 basis points to 3.95%. The German 10-year Bund yield was down 9 basis points while the 2-year was down 3 basis points to 2.03% and 2.01%, respectively.

Aussie futures mimicked the moves offshore, the 3-year futures yield was down 3 basis points to 3.46%, while the 10-year was down 5 basis points to 3.96%. Markets are still pricing in around a 70% chance of an RBA cut this year.

### Foreign exchange:

Escalating conflict in the Middle East saw the US dollar well bid as investors flocked to safer assets. The DXY index rose from a low of 100.70 to a high of 101.39 before retracing some of the move to trade around

### Today's key data and events

Time	Event	Exp	Prev
7:00pm	EU Unemployment rate	6.4%	6.4%
12:00am	US Fed Speakers		

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.

101.20 at the time of writing. The move pushes the US dollar up above it's range of the last few weeks, further developments in the Middle East and US non-farm payrolls data this Friday night will dictate the near-term moves.

As we flagged in this publication earlier in the week, the Aussie dollar was at risk of pullbacks should the global risk mood sour, as it did overnight. As expected, the Aussie dollar pulled back below 68 cents falling from a high of 0.6935 to a low of 0.6856 and was trading around 0.6882 at the time of writing. With Chinese markets closed this week for golden week holidays, the Aussie dollar's fate will rest on the USD leg, though we expect the 0.6850-0.6950 range will likely hold, though downside support could be tested should the risk mood sour further, and US labour force data come in firmer than expected.

The Japanese Yen outperformed, benefitting from its safe-haven characteristics. The USD/JPY finished a little softer at 143.57 after trading between a high of 144.53 and a low of 142.98. The euro and the British pound both sank lower breaking recent ranges to the downside. The euro slipped from a high of 1.1144 to a near 3-week low of 1.1046, while the pound broke its recent uptrend falling from a high of 1.3389 to an almost 2-week low of 1.3237.

### Commodities:

Crude markets finally came alive to the prospect of disrupted supply from broadening escalations in the Middle East. West Texas Intermediate (WTI) futures gained 2.4% to US\$69.83 per barrel and have lifted another 1.5% in early trade this morning. The American Petroleum Institute (API) reported that US crude inventories decreased by 1.5m barrels last week. Meanwhile, OPEC's crude output fell by 480k barrels per day last month on weaker supply from Libya.

Iron ore prices look to be consolidating their recent ascent on Chinese stimulus. SGX iron ore futures slipped 1.6% yesterday to US\$108.04 but remain 20% above the price traded at the start of last week.

Gold popped higher, benefitting from the risk-off mood. Gold rose 1.1% to US\$2,663.23 per ounce and is not far shy of its record high. Gold is likely to remain well supported by falling real yields and knife-edge tensions in the Middle East.

Metals also had a decent showing, nickel futures jumped 1.1% yesterday to US\$17,711, their highest level since June, while copper rose 1.5% to US\$9862.25.

### **Australia:**

Retail sales rose 0.7% mth in August to be 3.1% higher than a year ago. The ABS cited a warmer than usual August contributing to the boost but the impact of the Stage 3 tax cuts cannot be ignored. After previous tax cuts, it has taken time for consumers to make large purchases and the bump in August could reflect that.

Building approvals were down 6.1% in August but up 3.6% from last year. The current rolling 12-month pace of dwelling approvals is sitting around 166k, near the lowest since 2013. This is well short of the 240k annualised pace of dwelling construction needed to hit the Federal Government's 2029 goal of building 1.2 million new homes. Private sector house approvals were up 0.5% in the month to be around 20% above the cycle lows. High density approvals fell 17.5% mth speaking of the broader weakness in multi-density approvals taking the government further away from its goal.

The CoreLogic Home Value Index rose 0.5% in September with annual price growth moderated to 6.7%. Performances continue to diverge across capital city markets, prices slipping in Melbourne, rising slowly in Sydney but still rising strongly in Perth, Adelaide and Brisbane.

### **Eurozone:**

Inflation surprised marginally to the downside in September, the CPI declining 0.1%, helping annual inflation slow from 2.2% yr to 1.8% yr. Annual core inflation ticked down in the month from 2.8% yr to 2.7% yr. While service prices declined in the month, annual services inflation remains sticky around 4.0% yr.

### **Japan:**

The Q3 Tankan Survey provided encouraging news. The outlook for large nonmanufacturing businesses ticked up to 30pts while for manufacturers it ticked down to 12pts. In the detail, capex intentions ticked down slightly but remain strong at 10.6%, roughly where they were during the 1980s expansion. Output prices remain elevated at 2.8% for the year ahead, 4.1% three years out and 4.9% five years out. This suggests businesses are still willing to raise prices and that inflation expectations are not drifting lower.

### **United States:**

The ISM manufacturing PMI disappointed in September, holding at 47.2, a level well below the historic average. New orders improved in the month but remained weak at 46.1, while the employment index deteriorated further to 43.9, signalling the risk of a material retrenchment of staff across the sector. Pointing to a softening outlook for upstream price pressures, the prices paid index

dropped to 48.3 in September, having averaged 54.2 the past six months.

August's JOLTS survey was mixed. Job openings recovered above 8mn after two months below that level. Still, the current level is materially lower than this time last year, when job openings sat at 9.4mn. The hiring rate ticked down from 3.4% to 3.3%, the same as June. The separation rate meanwhile reversed July's rise to 3.4%, falling back to 3.1%. The quit rate continued to edge lower to 1.9% as the layoff rate remained benign at 1.0%.



# Authors

## Westpac Economics / Australia

Sydney

Level 19, 275 Kent Street

Sydney NSW 2000

Australia

E: [economics@westpac.com.au](mailto:economics@westpac.com.au)

### Luci Ellis

Chief Economist Westpac Group

E: [luci.ellis@westpac.com.au](mailto:luci.ellis@westpac.com.au)

### Matthew Hassan

Head of Australian Macro-Forecasting

E: [mhassan@westpac.com.au](mailto:mhassan@westpac.com.au)

### Elliot Clarke

Head of International Economics

E: [eclarke@westpac.com.au](mailto:eclarke@westpac.com.au)

### Justin Smirk

Senior Economist

E: [jsmirk@westpac.com.au](mailto:jsmirk@westpac.com.au)

### Pat Bustamante

Senior Economist

E: [pat.bustamante@westpac.com.au](mailto:pat.bustamante@westpac.com.au)

### Mantas Vanagas

Senior Economist

E: [mantas.vanagas@westpac.com.au](mailto:mantas.vanagas@westpac.com.au)

### Ryan Wells

Economist

E: [ryan.wells@westpac.com.au](mailto:ryan.wells@westpac.com.au)

### Illiana Jain

Economist

E: [illiana.jain@westpac.com.au](mailto:illiana.jain@westpac.com.au)

### Jameson Coombs

Economist

E: [jameson.coombs@westpac.com.au](mailto:jameson.coombs@westpac.com.au)

### Neha Sharma

Economist

E: [neha.sharma1@westpac.com.au](mailto:neha.sharma1@westpac.com.au)



©2024 Westpac Banking Corporation ABN 33 007 457 141 (including where acting under any of its Westpac, St George, Bank of Melbourne or BankSA brands, collectively, "Westpac"). References to the "Westpac Group" are to Westpac and its subsidiaries and includes the directors, employees and representatives of Westpac and its subsidiaries.

### Things you should know

We respect your privacy: You can view our [privacy statement at Westpac.com.au](#). Each time someone visits our site, data is captured so that we can accurately evaluate the quality of our content and make improvements for you. We may at times use technology to capture data about you to help us to better understand you and your needs, including potentially for the purposes of assessing your individual reading habits and interests to allow us to provide suggestions regarding other reading material which may be suitable for you.

This information, unless specifically indicated otherwise, is under copyright of the Westpac Group. None of the material, nor its contents, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party without the prior written permission of the Westpac Group.

### Disclaimer

This information has been prepared by Westpac and is intended for information purposes only. It is not intended to reflect any recommendation or financial advice and investment decisions should not be based on it. This information does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter into a legally binding contract. To the extent that this information contains any general advice, it has been prepared without taking into account your objectives, financial situation or needs and before acting on it you should consider the appropriateness of the advice. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure this information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of this information, or otherwise endorses it in any way. Except where contrary to law, Westpac Group intend by this notice to exclude liability for this information. This information is subject to change without notice and none of Westpac or its related entities is under any obligation to update this information or correct any inaccuracy which may become apparent at a later date. This information may contain or incorporate by reference forward-looking statements. The words "believe", "anticipate", "expect", "intend", "plan", "predict", "continue", "assume", "positioned", "may", "will", "should", "shall", "risk" and other similar expressions that are predictions of or indicate future events and future trends identify forward-looking statements. These forward-looking statements include all matters that are not historical facts. Past performance is not a reliable indicator of future performance, nor are forecasts of future performance. Whilst every effort has been taken to ensure that the assumptions on which any forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from any forecasts.

**Conflicts of Interest:** In the normal course of offering banking products and services to its clients, the Westpac Group may act in several capacities (including issuer, market maker, underwriter, distributor, swap counterparty and calculation

agent) simultaneously with respect to a financial instrument, giving rise to potential conflicts of interest which may impact the performance of a financial instrument. The Westpac Group may at any time transact or hold a position (including hedging and trading positions) for its own account or the account of a client in any financial instrument which may impact the performance of that financial instrument.

**Author(s) disclaimer and declaration:** The author(s) confirms that no part of his/her compensation was, is, or will be, directly or indirectly, related to any views or (if applicable) recommendations expressed in this material. The author(s) also confirms that this material accurately reflects his/her personal views about the financial products, companies or issuers (if applicable) and is based on sources reasonably believed to be reliable and accurate.

**Further important information regarding sustainability-related content:** This material may contain statements relating to environmental, social and governance (ESG) topics. These are subject to known and unknown risks, and there are significant uncertainties, limitations, risks and assumptions in the metrics, modelling, data, scenarios, reporting and analysis on which the statements rely. In particular, these areas are rapidly evolving and maturing, and there are variations in approaches and common standards and practice, as well as uncertainty around future related policy and legislation. Some material may include information derived from publicly available sources that have not been independently verified. No representation or warranty is made as to the accuracy, completeness or reliability of the information. There is a risk that the analysis, estimates, judgements, assumptions, views, models, scenarios or projections used may turn out to be incorrect. These risks may cause actual outcomes to differ materially from those expressed or implied. The ESG-related statements in this material do not constitute advice, nor are they guarantees or predictions of future performance, and Westpac gives no representation, warranty or assurance (including as to the quality, accuracy or completeness of the statements). You should seek your own independent advice.

### Additional country disclosures:

**Australia:** Westpac holds an Australian Financial Services Licence (No. 233714). You can access [Westpac's Financial Services Guide here](#) or request a copy from your Westpac point of contact. To the extent that this information contains any general advice, it has been prepared without taking into account your objectives, financial situation or needs and before acting on it you should consider the appropriateness of the advice.

**New Zealand:** In New Zealand, products and services are provided by either Westpac (NZ division) or Westpac New Zealand Limited (company number 1763882), the New Zealand incorporated subsidiary of Westpac ("WNZL"). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. WNZL is not an authorised deposit-taking institution for the purposes of Australian prudential standards. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address [www.westpac.co.nz](http://www.westpac.co.nz).

**Singapore:** This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients of this material in Singapore should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking

*Disclaimer continues overleaf* ▶



licence and is subject to supervision by the Monetary Authority of Singapore.

**U.S.:** Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission (“CFTC”) as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. The services and products referenced above are not insured by the Federal Deposit Insurance Corporation (“FDIC”). Westpac Capital Markets, LLC (“WCM”), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 (‘the Exchange Act’) and member of the Financial Industry Regulatory Authority (‘FINRA’). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. Transactions by U.S. customers of any securities referenced herein should be effected through WCM. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person of WCM or any other U.S. broker-dealer under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.

**UK and EU:** The London branch of Westpac is authorised in the United Kingdom by the Prudential Regulation Authority (PRA) and is subject to regulation by the Financial Conduct Authority (FCA) and limited regulation by the PRA (Financial Services Register number: 124586). The London branch of Westpac is registered at Companies House as a branch established in the United Kingdom (Branch No. BR000106). Details about the extent of the regulation of Westpac’s London branch by the PRA are available from us on request.

Westpac Europe GmbH (“WEG”) is authorised in Germany by the Federal Financial Supervision Authority (‘BaFin’) and subject to its regulation. WEG’s supervisory authorities are BaFin and the German Federal Bank (‘Deutsche Bundesbank’). WEG is registered with the commercial register (‘Handelsregister’) of the local court of Frankfurt am Main under registration number HRB 118483. In accordance with APRA’s Prudential Standard 222 ‘Association with Related Entities’, Westpac does not stand behind WEG other than as provided for in certain legal agreements (a risk transfer, sub-participation and collateral agreement) between Westpac and WEG and obligations of WEG do not represent liabilities of Westpac.

This communication is not intended for distribution to, or use by

any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation. This communication is not being made to or distributed to, and must not be passed on to, the general public in the United Kingdom. Rather, this communication is being made only to and is directed at (a) those persons falling within the definition of Investment Professionals (set out in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”)); (b) those persons falling within the definition of high net worth companies, unincorporated associations etc. (set out in Article 49(2) of the Order); (c) other persons to whom it may lawfully be communicated in accordance with the Order or (d) any persons to whom it may otherwise lawfully be made (all such persons together being referred to as “relevant persons”). Any person who is not a relevant person should not act or rely on this communication or any of its contents. In the same way, the information contained in this communication is intended for “eligible counterparties” and “professional clients” as defined by the rules of the Financial Conduct Authority and is not intended for “retail clients”. Westpac expressly prohibits you from passing on the information in this communication to any third party.

This communication contains general commentary, research, and market colour. The communication does not constitute investment advice. The material may contain an ‘investment recommendation’ and/or ‘information recommending or suggesting an investment’, both as defined in Regulation (EU) No 596/2014 (including as applicable in the United Kingdom) (“MAR”). In accordance with the relevant provisions of MAR, reasonable care has been taken to ensure that the material has been objectively presented and that interests or conflicts of interest of the sender concerning the financial instruments to which that information relates have been disclosed.

Investment recommendations must be read alongside the specific disclosure which accompanies them and the general disclosure which can be found [here](#). Such disclosure fulfils certain additional information requirements of MAR and associated delegated legislation and by accepting this communication you acknowledge that you are aware of the existence of such additional disclosure and its contents.

To the extent this communication comprises an investment recommendation it is classified as non-independent research. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and therefore constitutes a marketing communication. Further, this communication is not subject to any prohibition on dealing ahead of the dissemination of investment research.