

30 September 2024

# MORNING REPORT

Today's economic developments and market movements.

## Key themes

Benign US inflation data supported the significant policy easing priced into markets.

US treasuries rallied, with the yield curve broadly lower and steeper. Equities in the US were higher over the week, but edged lower during Friday's trade.

Increasing intensity of airstrike attacks between Israel and Hezbollah has again flared tensions in the region. The risk of a further escalation has again increased as attempts to broker a ceasefire appear increasingly futile.

Markets are yet to react significantly to the news, though the scope for bouts of risk aversion has increased.

Announced stimulus in China continues to reverberate through Asian markets. The jury remains out on whether the steps will deliver on expectations.

## Data snapshot

FX Last 24 hrs	Current	Change
TWI	62.7	0.2%
AUD/USD	0.6914	0.1%
AUD/JPY	98.50	-1.7%
AUD/GBP	0.5168	0.4%
AUD/NZD	1.0891	-0.1%
AUD/EUR	0.6191	0.2%
AUD/CNH	4.8263	0.2%
AUD/SGD	0.8856	-0.1%
AUD/HKD	5.3747	0.0%
AUD/CAD	0.9342	0.5%
EUR/USD	1.1169	-0.1%
USD/JPY	142.46	-1.8%
USD Index	100.38	-0.2%

Equities	Close	Change
S&P/ASX 200	8,212	0.1%
S&P 500	5,738	-0.1%
Japan Nikkei	39,830	2.3%
Hang Seng	20,632	3.6%
Euro Stoxx 50	5,067	0.7%
UK FTSE100	8,321	0.4%
VIX Index	16.96	10.3%

Commodities	Current	Change
CRB Index	285.94	0.5%
Gold	2663.21	-0.5%
Copper	9875.03	-1.0%
Oil (WTI futures)	68.18	0.8%
Coal (coking)	223.00	7.2%
Coal (thermal)	146.25	0.9%
Iron Ore	104.20	3.6%
ACCU	36.75	1.9%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.35	-0.01
90 day BBSY	4.49	0.01
180 day BBSY	4.69	0.01
1 year swap	3.96	-0.01
2 year swap	3.60	-0.02
3 year swap	3.50	0.02
4 year swap	3.50	-0.01
5 year swap	3.55	-0.01
6 year swap	3.61	-0.03
7 year swap	3.69	-0.03
8 year swap	3.77	-0.03
9 year swap	3.83	-0.03
10 year swap	4.02	-0.03

Government Bond Yields	Close	Change
<b>Australia</b>		
3 year bond	3.53	0.03
10 year bond	3.96	0.02
<b>United States</b>		
3-month T Bill	4.48	-0.01
2 year bond	3.56	-0.07
10 year bond	3.75	-0.05
<b>Other (10 year yields)</b>		
Germany	2.13	-0.05
Japan	0.85	0.02
UK	3.98	-0.03

Sydney Futures Exchange	Current	Change
10 yr bond	3.94	-0.04
3 yr bond	3.42	-0.03
3 mth bill rate	4.20	-0.01
SPI 200	8,277	0.3%

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 pulled back slightly on Friday but remained higher over the week. The S&P 500 edged 0.1% lower but finished 0.6% higher over the week, the third consecutive weekly gain. The NASDAQ was down 0.4% on Friday but 1.0% higher over the week.

Risk appetite was more constructive in Europe, the Euro Stoxx 50 rose 0.7% on Friday and surged 4.0% over the week - the largest weekly gain since January. After troughing in early August, the Euro Stoxx 500 is up over 13%. Stock in Germany have also joined in on the multi-month bullish run, up over 14% over the same period. The German Dax gained 1.2% on Friday and was also 4.0% higher over the week. The UK's FTSE 100 trailed the broader rally in Europe, gaining 0.4% on Friday to end the week up 1.1%.

The ASX 200 eked out a 0.1% gain on Friday, ending the week broadly flat. Equities in China continued to rally on the announced policy support, the CSI 300 jumped another 4.5% in Shanghai, gaining a whopping 15.7% over the week - the largest weekly gain since November 2008.

## Interest rates:

The US yield curve traded lower and steeper on Friday night, likely helped by benign inflation data. The 2-year yield dropped 7 basis points to 3.56%, while the 10-year yield fell 5 basis points to 3.75%.

Markets remain split on the size of the Fed's next move. With two more meetings scheduled for this year, there is around 70 basis points of cuts priced into swaps markets, suggesting the needle is tilted slightly towards a larger 50 basis point at one of the two meetings.

Aussie bond futures enjoyed a modest rally. The 3-year futures yield fell 3 basis points to 3.42%, while the 10-year futures yield was down 4 basis points to 3.94%.

Markets are still pricing in around a 70% chance of an RBA rate cut this year.

## Foreign exchange:

The Aussie dollar managed to close above 69 cents on Friday after oscillating either side of that level throughout the session. The AUD/USD was trading around 0.6914 in early trade this morning. A recovery in key commodity prices owing to China's stimulus announcements and firmer yield support are helping the Aussie dollar. However, as we flagged last week, bouts of risk aversion could prove a headwind for the Aussie. Reports out of the Middle East over the weekend certainly represent a possible materialisation of that risk.

The US dollar traded familiar ranges on Friday, with little

## Today's key data and events

Time	Event	Exp	Prev
9:50am	JN Industrial Production Aug Prel.	-0.5%	3.1%
	JN Retail Sales Aug	0.5%	0.2%
10am	NZ ANZ Business Confidence Sep		50.6
11:30am	CH Manufacturing PMI Sep	49.4	49.1
	CH Services PMI Sep	50.4	50.3
	AU Private Sector Credit Aug	0.4%	0.5%
11:45am	CH Caixin Manufacturing PMI Sep	50.5	50.4
	CH Caixin Services PMI Sep	51.6	51.6
4pm	UK Nationwide House Prices Sep	0.2%	-0.2%
	UK GDP Q2 Final	0.6%	0.6%
6:30pm	UK Consumer Credit Aug	£1.4bn	£.2bn
10pm	EZ Ger. CPI Sep Prel.	0.1%	-0.1%
11:45pm	US MNI Chicago PMI Sep	46.0	46.1
12:01am	AU CoreLogic Home Value Index Sep		0.5%
12:30am	US Dallas Fed Mfg Activity Sep	-10.3	-9.7

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.

looking to shake the current 100.15-101.20 range for the DXY. Escalating tensions in the Middle East could garner some safe have demand, however, the path of interest rates will remain the key driver of the US dollar. With little guidance on the near-term path of interest rates, choppy conditions are likely to continue as markets jostle for consensus on the size of the next Fed move.

The British Pound pulled back on Friday, but remains in a constructive multi-week uptrend. The GBP/USD was trading around 1.3382 in early trade this morning. The Euro has been range-bound since Mid-September, straddled by 1.12 on the upside and 1.11 on the downside. The EUR/USD was trading around the middle of that range this morning at around 1.1169. With both the central bank's in Europe and the UK embarking on patient easing cycles, there remains scope for further upside should the US dollar leg soften.

The Japanese Yen swung wildly on Friday on the announcement of Japan's new Prime Minister, which markets believe has boosted the likelihood of faster monetary policy tightening. The USD/JPY fell from a high of 146.49 to a low of 142.07, unwinding over half of the multi-week softening in the Yen.

## Commodities:

West Texas Intermediate (WTI) oil futures rose 0.8% on Friday to US\$68.18 per barrel. Crude futures are trading slightly lower in early trade this morning, despite increasing risks of a further escalation of conflict in the Middle East.

Iron ore futures jumped 3.6% on Friday to US\$104.20 and are up a further 2.1% in early trade this morning. Iron ore futures are up over 16% since China began announcing significant policy support at the start of last week.

Metals have enjoyed a broad rally through much of

September with copper and nickel up 11.6% and 8.5% from their respective September lows.

## **Australia:**

There were no major economic data releases on Friday.

## **China:**

Three of China's largest cities eased rules for homebuyers, adding to the central government's latest efforts to prop up the embattled property sector.

Guangzhou became the first tier-1 city to remove all restrictions, saying it will stop reviewing homebuyer eligibility and no longer limit the number of homes owned. Both Shanghai and Shenzhen said they will allow more people to purchase residences in suburban areas, as well as allow others to buy more homes.

Shanghai and Shenzhen also announced they were lowering minimum downpayment ratios for first and second homes to 15% and 20%, respectively, in a bid to boost demand.

## **Eurozone:**

Economic confidence was little changed in September and over the year at 96.2. The labour market and European Central Bank (ECB) rate cuts offer up some optimism for the outlook. ECB 1-year and 3-year inflation expectations remain favourable for the rates outlook at 2.7% and 2.3%.

## **Japan:**

Shigeru Ishiba will be the next Japanese Prime Minister after beating Sanae Takaichi in the leadership race for the Liberal Democratic Party (LDP).

## **New Zealand:**

The consumer confidence index rose to 95.1 in September from 92.2 in August. This was the strongest result since March 2022, though conditions for the consumer are likely to remain challenging for some time yet.

## **United States:**

Personal income and spending disappointed at the margin in August, each rising 0.2% against respective expectations of 0.4% and 0.3%.

The softer outcome for personal income was despite a 0.5% gain in wages and salaries. Positive annual revisions to history were highlighted by the savings rate now being 4.8% instead of circa 3%.

Headline and core personal consumption expenditure (PCE) deflator outcomes were benign in August, as expected. Headline and core PCE inflation rose 0.1% in the month and 2.2% and 2.7%, respectively, over the year. For the Fed, these are very pleasing results, inflation abating to target while the consumer's appetite for spending remains robust.

University of Michigan consumer sentiment was revised up in the final estimate for September, from 69.0 to 70.1, primarily as a result of stronger expectations over the outlook. 1-year and 5-year inflation expectations were unchanged in the month at 2.7% and 3.1%, in line with their pre-pandemic averages when PCE inflation was consistently below target.

The advanced goods trade balance narrowed from \$102.8bn to \$94.3bn as exports gained 2.4% and imports fell 1.6%. However, over the year exports are up 4.1% and imports 6.9% higher, resulting in a goods deficit \$10bn higher than a year ago.



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