MORNING REPORT

Today's economic developments and market movements.

Key themes

US Treasuries rallied on the back of the softer than expected jobs report. The US 2-year treasury yield fell briefly below the 10-year yield as markets priced in larger cuts by the Fed, starting in September. Yields were also lower in Europe and Australia.

Stocks gave up early trade gains as Nvidia continued to slide, extending its two-day selloff to 11% - worst two day plunge since October 2022. This weighed on the tech sector and some key market indices.

The US dollar index fell while the Aussie advanced. Commodities were generally softer, with the price of oil falling below US$70 a barrel for the first time since December 2023, and the price of iron ore sliding closer to US$90.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	61.9	-0.6%
AUD/USD	0.6724	0.2%
AUD/JPY	96.59	-1.0%
AUD/GBP	0.5115	-0.1%
AUD/NZD	1.0848	0.0%
AUD/EUR	0.6066	-0.1%
AUD/CNH	4.7809	0.1%
AUD/SGD	0.8766	-0.1%
AUD/HKD	5.2429	0.2%
AUD/CAD	0.9082	-0.1%
EUR/USD	1.1084	0.4%
USD/JPY	143.64	-1.2%
USD Index	101.36	-0.5%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.35	0.00
90 day BBSY	4.46	0.01
180 day BBSY	4.58	-0.01
1 year swap	4.00	-0.04
2 year swap	3.67	-0.06
3 year swap	3.56	-0.06
4 year swap	3.54	-0.06
5 year swap	3.59	-0.05
6 year swap	3.65	-0.05
7 year swap	3.72	-0.05
8 year swap	3.80	-0.04
9 year swap	3.86	-0.04
10 year swap	4.03	-0.04

Equities	Close	Change
S&P/ASX 200	7,950	-1.9%
S&P 500	5,520	-0.2%
Japan Nikkei	37,048	-4.2%
Hang Seng	17,457	-1.1%
Euro Stoxx 50	4,848	-1.3%
UK FTSE100	8,270	-0.3%
VIX Index	21.32	2.9%

Government Bond Yields	Close	Change
Australia		
3 year bond	3.57	-0.03
10 year bond	3.95	-0.05
United States		
3-month T Bill	4.95	0.00
2 year bond	3.75	-0.11
10 year bond	3.76	-0.08
Other (10 year yields)		
Germany	2.22	-0.05
Japan	0.88	-0.04
UK	3.94	-0.06

Commodities	Current	Change
CRB Index	270.26	-0.9%
Gold	2495.00	0.1%
Copper	8853.98	-2.5%
Oil (WTI futures)	69.25	-1.6%
Coal (coking)	188.00	-3.6%
Coal (thermal)	139.40	-1.9%
Iron Ore	93.15	-1.2%
ACCU	35.30	0.2%

Sydney Futures Exchange	Current	Change
10 yr bond	3.91	-0.05
3 yr bond	3.51	-0.05
3 mth bill rate	4.37	0.00
SPI 200	7,940	0.0%

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:

Global equities finished lower overnight, extending losses from the previous session.

In the US, the S&P 500 fell 0.2%. The tech-heavy NASDAQ was weaker overnight, falling 0.3%, with sensitivity around Nvidia keeping markets on its toes. The Dow Jones outperformed, finishing 0.1% higher.

European stocks also moderated overnight, with the Euro Stoxx 50, the UK's FTSE 100 and Germany's DAX falling 1.3%, 0.4% and 0.8% respectively.

The Asian session was mostly playing catch-up to yesterday's pull-back in US equities. Japan's Nikkei fell 4.2% yesterday, the largest fall since the early-August market meltdown. Declines were also observed across Hong Kong (–1.1%) and Shanghai (–0.7%).

The ASX 200 fell by a sizeable –1.9% yesterday, also largely in response to the shift in risk sentiment in the US. All sectors were in the red, with energy and materials leading the declines at –3.0% a piece. Futures markets point to a whiff of positive momentum at open this morning.

Interest rates:

The US yield curve steepened overnight, in response to softer-than-expected data on the labour market. The 2-year treasury yield fell 11 basis points to 3.75% while the 10-year treasury yield fell 8 basis points to 3.76%, leaving the 2-10 spread at its narrowest since July 2022.

Interest-rate markets are pricing in 110 basis points of cuts over 2024 and a further 120 basis points of cuts over 2025. This is up from the 97 basis points of cuts over 2024 expected at the start of the week.

Yields in Germany and the UK also moved lower overnight, the 2-year Bund and Gilt down 6 basis points and 5 basis points respectively, while the 10-year Bund and Gilt were down 5 basis points and 6 basis points respectively.

Australian yields also moved lower overnight. The 3-year futures yield declined 5 basis points to 3.51%, while the 10-year futures yield fell 5 basis points to 3.91%. According to OIS pricing, markets have shifted forward their rate cut profile, and are now anticipating 22 basis points of cuts by the end of 2024, a single rate-cut by year-end. The first full RBA rate cut is priced in for February 2025.

Today's key data and events

Time	Event	Exp	Prev
11:30am	AU Goods Trade Balance Jul	$5.0bn	$5.6bn
1:05pm	AU RBA Governor Bullock Speech	–	–
4:00pm	Ger. Factory Orders Jul	-1.7%	3.9%
7:00pm	EZ Retail Sales Jul	0.2%	-0.3%
10:30pm	US Nonfarm Productivity Q2 Final	2.5%	2.3%
12:00am	US ISM Services Index Aug	51.4	51.4

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 declined 0.5% overnight, in line with the lower yields and increasing bets of larger US rate cuts. The US dollar index fell to a session low of 101.24 following the JOLTS jobs report, before settling at around 103.28.

The Aussie was 0.2% higher against the Greenback to reach 0.6724. After falling to an intraday low of 0.6686 in early trade on the back of falling iron ore prices, and a soft outcome for Q2 GDP, the AUD/USD recovered to reach a high of 0.6749. Price action will be driven by a speech by Governor Bullock later this morning. A weaker than the expected US August non-farm payrolls on Friday is also likely top provide the Aussie with a tailwind.

The Yen gained ground against the US dollar, with the USD/JPY down 1.2% to 143.64, supported by the weakness in the US dollar and Japan's services PMI which showed input price inflation remained elevated.

Commodities:

The prices of key commodities were lower.

The price of oil declined 1.6%, falling below US$70 per barrel. The potential for production to resume in Libya outweighed rumours OPEC+ may postpone their planned increase in output later this year.

Iron ore markets softened to fall closer to US$90 as traders focused on the continuing weakness in Chinese property markets.

Metals showed some signs of stabilising after the recent slump driven by concerns about China.

Australia:

The Australian economy remains sluggish, with GDP rising just 0.2%qtr and 1.0%yr in the June quarter. The aggregate outcome was broadly in line with Westpac's and the market's expectations.

The underlying mix provided the big surprise, with consumer spending falling 0.2%qtr – the largest quarterly decline since the GFC, excluding the COVID period. This is particularly weak given the backdrop of strong population growth, up another 0.6%qtr in Q2 (the second strongest quarterly jump in the population on record).

This protracted period of weakness in consumer spending is now clearly weighing more heavily on the business sector where investment increasing by just 0.1%qtr and 2.2%yr in Q2 – a step down from the 4.5%yr recorded in the March quarter. As a result, total private demand (consumer spending and business investment) was flat in Q2.

This weakness in private demand suggests there is a risk that the gradual recovery expected in the second half of 2024 is slower and/or weaker to pan out. This is a key uncertainty we have highlighted in the past.

The annual pace of growth is well below trend and the slowest since the early 1990s recession, outside of the pandemic period, and particularly weak in per capita terms given population growth running at 2.5%yr. Australia has now recorded six consecutive quarters of declining per capita GDP – the longest stretch on quarterly estimates going back to 1959.

Underlying cost pressures remain broadly unchanged, with a step down in average earnings growth offsetting the subdued labour productivity outcome. Unit labour costs (a key measure of domestic cost pressures) are now running at 1.8% in six-month annualised terms, broadly in line with the March quarter. This is lower than the average pace in 2019 when underlying inflation was below the RBA's 2-3% target band.

The June quarter update will be a mixed result for the RBA, subdued growth indicating restrictive policy is aiding disinflation, the revised picture of the consumer suggesting it is weighing more heavily but the slow improvement in domestic cost drivers a little unsettling.

Japan:

The au Jibun Bank Japan Services PMI was revised lower to 53.7 in August from a preliminary estimate of 54.0. The result was a slight deterioration from the 54.0 recorded in July. New orders rose for the second month, while export sales rose after a fall in July. Input costs were higher due to higher wage, material, and transport costs. Sentiment stayed upbeat and was stronger than the long run average.

China:

The Caixin China General Services PMI declined to 51.6 in August from 52.1 in July, on the back of easing new order growth and a slight fall in the employment subcomponent. This was below the 52.2 points expected by the market. On prices, input cost inflation accelerated to the highest since June 2023. Meanwhile, output costs fell for the first time in seven months.

Canada:

The Bank of Canada cut their benchmark rate by 25bps to 4.25% in September. The statement reiterated that, if data unfolds as projected, they expect to ease further. Potential alternatives to a sequence of 25bp cuts were discussed, but there was a large consensus for the decision to ease 25bps in September. On the economy, Q2 growth was ahead of expectations, but the quarter is assessed to have ended on a weak note. "The labour market continues to slow, with little change in employment in recent months. Wage growth, however, remains elevated relative to productivity." "The Bank's preferred measures of core inflation averaged around 2 ½% and the share of components of the consumer price index growing above 3% is roughly at its historical norm. High shelter price inflation is still the biggest contributor to total inflation but is starting to slow. Inflation also remains elevated in some other services." "Excess supply in the economy continues to put downward pressure on inflation, while price increases in shelter and some other services are holding inflation up."

Eurozone:

The Eurozone's final S&P HCOB services PMI edged down from the flash release of 53.3 to 52.9. While expansionary, an Olympic impact was noted. Solid conditions for services are a stark contrast to recession in manufacturing, so too pronounced weakness in Germany and France versus sound activity in Spain, Italy and the periphery.

United Kingdom:

The UK's final S&P Global services PMI was robust at 53.7 (Flash 53.3), continuing post-election activity gains and easing of inflation pressures. However, the report also noted higher salary payments as a concern.

United States:

JOLTS job openings fell to 7.673m in July from a downwardly revised 7.910m in June. This was weaker than the 8.1m expected by the market and was the weakest print for job openings since January 2021. The hiring and separation rates were little changed at 3.5% and 3.4%, consistent with the levels seen prior to the pandemic, when employment growth was solid but wage and consumer inflation benign.

July's trade balance was as expected at -US$78.8bn (est. -US$79.0bn, prior -US$73.0bn) as import growth of 2.1% outpaced the 0.5% increase in exports. Factory orders remained volatile in July, headline orders rebounding 5.0% (est. +4.8%m/mm prior -3.3%m/m). Ex transport, orders were broadly stable, up 0.4% after a 0.1% gain in June.

The Fed's latest Beige Book reported slight growth in 3 districts and flat or negative growth in 9. Employment was assessed as steady overall, though there were "isolated reports" of reduced hours and shifts. Wage growth was assessed as "modest". Reports suggest consumer spending "ticked down" in most districts having been steady in the prior period. Residential construction meanwhile was mixed, albeit with sales softer in most districts. Consumer prices were assessed to have increased "modestly" in the current reporting period.

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