11 October 2024

MORNING REPORT

Today's economic developments and market movements.

Key themes

A marginally hotter-than-expected US inflation report was a remineder that inflation is down but not yet out, supporting a more gradual pace of policy easing.

However, the signal was mixed by a surprise jump in jobless claims to their highest level in over year. This made for choppy trade across most asset classes.

US equities drifted slighlty lower, while treasury yields finished modestly lower across the curve.

The US dollar was little changed with the run-up in yields running out of steam.

Crude surged as traders focussed on the risks surrounding Israel's potential retaliation for the recent Iranian missile strikes as IDF Minister Gallant warned that the strikes "will be deadly, precise and above all surprising".

Data snapshot

FX Last 24 hrs	Current	Change
TWI	62.4	0.2%
AUD/USD	0.6740	0.3%
AUD/JPY	100.12	-0.2%
AUD/GBP	0.5160	0.4%
AUD/NZD	1.1064	-0.2%
AUD/EUR	0.6163	0.3%
AUD/CNH	4.7757	0.2%
AUD/SGD	0.8803	0.2%
AUD/HKD	5.2365	0.3%
AUD/CAD	0.9261	0.6%
EUR/USD	1.0935	0.0%
USD/JPY	148.54	-0.5%
USD Index	102.87	-0.1%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.36	0.00
90 day BBSY	4.47	0.00
180 day BBSY	4.67	0.00
1 year swap	4.13	-0.01
2 year swap	3.87	-0.01
3 year swap	3.80	0.01
4 year swap	3.81	0.02
5 year swap	3.86	0.02
6 year swap	3.92	0.02
7 year swap	3.99	0.02
8 year swap	4.06	0.02
9 year swap	4.12	0.02
10 year swap	4.30	0.01

Equities	Close	Change
S&P/ASX 200	8,223	0.4%
S&P 500	5,780	-0.2%
Japan Nikkei	39,381	0.3%
Hang Seng	21,252	3.0%
Euro Stoxx 50	4,970	-0.2%
UK FTSE100	8,238	-0.1%
VIX Index	20.93	0.3%

Commodities	Current	Change
CRB Index	290.63	1.6%
Gold	2629.78	0.8%
Copper	9584.61	0.5%
Oil (WTI futures)	75.85	3.6%
Coal (coking)	216.50	0.9%
Coal (thermal)	150.25	2.2%
Iron Ore	106.35	-0.5%
ACCU	36.25	1.8%

Government Bond Yields	Close	Change
Australia		
3 year bond	3.79	0.05
10 year bond	4.22	0.03
United States		
3-month T Bill	4.53	-0.02
2 year bond	3.96	-0.06
10 year bond	4.06	-0.01
Other (10 year yields)		
Germany	2.26	0.00
Japan	0.96	0.02
UK	4.21	0.03

Sydney Futures Exchange	Current	Change
10 yr bond	4.23	0.00
3 yr bond	3.74	-0.01
3 mth bill rate	4.30	-0.01
SPI 200	8,256	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.

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Share markets:

US equities opened a little lower and gyrated sideways to finish below the previous day's close. The S&P 500 was down 0.2%, while the Dow Jones and the NASDAQ each closed 0.1% lower.

It was a similar story in Europe where the Euro Stoxx 50 closed down 0.3%, the German Dax shed 0.2% and the UK's FTSE 100 edged 0.1% lower.

All major benchmark's finished in the green across Asian markets yesterday. The Hang Seng and the CSI 300 led the way, up 3.0% and 1.1% respectively, as investors continue to digest the impact of announced stimulus and mull over the likelihood and magnitude of further fiscal support for the Chinese economy.

The ASX 200 rose 0.4% to close just 0.8% shy of its all-time high. Futures were broadly flat overnight.

Interest rates:

US treasuries whipsawed as traders digested the mixed signals from inflation and jobless claims. Yields ultimately finished broadly lower given rate cut expectations had already been pared significantly.

The 2-year yield dropped 6 basis points to 3.96%, while the 10-year yield edged 1 basis point lower to 4.06%; the 2-10-year curve bull steepening. Expectations for rate cuts were little changed. At least one 25 basis point cut by year-end is fully baked in with the odds of a second sitting around 70%.

In Europe, yields were flat to 3 basis points lower in the 2-year maturity, but there was more divergence in the 10-year's. 10-year yields were broadly lower with the exeption of the UK and Switzerland which were up 3 and 5 basis points, respectively. Markets are pricing a 90-95% chance the ECB and the BoE cut by 25 basis points in November.

Aussie futures yields were little changed overnight. The 3-year futures yield edged 1 basis point lower to 3.74%, while the 10-year was flat at 4.23%. The odds of an RBA rate cut this year are sitting around 40% with a cut not fully priced until the April 2025 meeting.

Foreign exchange:

The US dollar gyrated overnight but finished the session little changed at 102.87 after touching a near 2-week high earlier in the session. The fragile geopolitical backdrop should keep the US dollar well bid, but near term price action will ulimately be driven by the data and the implications for Fed policy normalisation. Markets are probably fairly pricing the risks at the moment, but given the front-loaded start to the easing cycle, the optices of an immediate pause would be hard to

Today's key data and events

Time	Event	Exp	Prev
8:45am	NZ Net Migration Aug		3.0k
5pm	EZ Ger. CPI Sep Final	0.0%	0.00%
5pm	UK Monthly GDP Aug	0.2%	0.0%
11:30pm	US PPI Sep	0.15	0.2%
1am	US UoM Cons. Sentiment Oct Prel.	71.0	70.1
13 Oct	CH PPI y/y Sep	-2.6%	-1.8%
13 Oct	CH CPI y/y Sep	0.6%	0.6%

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.

justify unless their is further evidence undermining the Fed's confidence the inflation target can be sustainably achieved.

The Aussie dollar looks to be establishing a tentative base around the 0.6700 level with significant support just below this region. The AUD/USD bounced off of a low of 0.6702 to reach of high of 0.6741 and is trading around that level at the time of writing. Any announced stimulus, or lack thereof, from the Chinese Ministry of Finance tomorrow presents significant two-way event risk for the Aussie dollar, as does any flare up in the Middle East. Equally, its difficult to see any catalyst for a sustained move higher unless the narrative in the US swings back in favour of aggressive cuts. This leave the Aussie free to explore 0.6685-0.6680 with the risks tilted to the downside.

The euro also looks to be finding a floor around 1.0900-1.0925 as the US dollar strengthing takes a breather. The EUR/USD finished a little lower yesterday after retracing a fall to 1.0900 where support ultimately held. Firming expectations for an ECB rate cut in November will keep the Euro on the backfoot, likely leaving the US dollar leg as the main catalyst driving the price.

The weakening in the Yen took a bit of a breather with the USD/JPY falling from a high of 149.55 to a low of 148.30, not far from where it's currently trading. The Yen has so far withstood a slide to 150, though a probe at this level is likely to be unavoidable in the near-term should rate expectations in the US hold up. A more rapid removal of accomodative policy still looks some way off in Japan.

Commodities:

Crude surged as traders focussed on the risks surrounding Israel's potential retaliation for the recent Iranian missile strikes as IDF Minister Gallant warned that the strikes "will be deadly, precise and above all surprising". Iran also warned that it is prepared to launch "hundreds and thousands of missiles … and target security military and economic centres".

West Texas Intermediate (WTI) futures rose 3.6% to US$75.85 while Brent futures are up 3.7% at US$79.38.

Increased supply remains a focus in the background after the deal between the two governments in Libya back on September 27 saw a new central bank governor appointed paving the way for a resumption in oil production back to circa 1m barrels per day from the recent lows at 450k barrels per day.

Metals also rose as traders focussed on Saturday's fiscal policy briefing in China. Copper is up 0.5% at $9,585 while aluminium rose 2.0% at $2,591.

The iron ore market marked time as traders remained super focussed on the Chinese fiscal policy briefing due Saturday. The futures contracts were down 0.5% yesterday but have opened 2.2% higher this morning at around US$106.70. On top of the fiscal briefing Saturday, the iron ore market will face a heavy run of Chinese data next week.

Australia:

Consumer inflation expectations edged down to 4.0% in October from 4.4% in September. This was the lowest reading since August 2021 and in line with the 10-year pre-pandemic average of 4.1% - a period where inflation averaged 2.1%. This will provide the RBA with comfort that inflation expectations remain well anchored.

United States:

The consumer price index (CPI) surprised slightly on the upside in September with the headline index rising 0.2% and core measure increasing 0.3% - both 0.1 percentage points above expectations.

The monthly pace of both measures was unchanged from August and in line with the averages over the last twelve months suggesting inflationary pressures remain stable.

In annual terms the headline CPI ticked down compared to the prior month to 2.4%, a new low in this inflation cycle. The core rate rose for the first time in 1½ years, from 3.2% to 3.3%.

The core goods category stood out, with prices rising for the first time since February, by 0.2% in the month. Pleasingly, core services inflation was unchanged on the month at 0.4% and we saw some further progress on declining shelter inflation.

Initial claims for unemployment insurance rose from 225k last month to 258k, the highest level in more than a year. The increase likely relates to the effects of the Hurricane Helene, with states in its path reporting notable increases.

The Fed officials downplayed the importance of the firmer CPI data for September, with overnight comments from regional Fed presidents John Williams, Austan Goolsbee and Thomas Barkin suggesting that they are continuing to focus on the longer-term decline in inflation. In contrast, Atlanta Fed's Raphael Bostic was more hawkish suggesting that he would be comfortable pausing the rate cuts for a meeting if the data suggests that is appropriate.

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