



14 October 2024

MORNING REPORT

Today's economic developments and market movements.

Key themes

Saturday's briefing from the Chinese Ministry of Finance failed to deliver significant new fiscal stimulus many had been hoping for.

The Aussie dollar opened slightly lower this morning but all eyes will be on the open of Chinese equities this morning to gauge the market reaction.

US earnings season kicked off on Friday with stocks hitting all-time highs as big banks posted solid results.

Moves were fairly modest in US rates markets with the short-end of the curve outperforming. The US dollar was broadly flat.

Crude markets softened given no signs of retaliation from Israel for recent Iranian missile attacks. Though the US expanded its sanctions on Iran and sent advanced missile defence systems to Israel.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	62.4	0.0%
AUD/USD	0.6741	0.2%
AUD/JPY	100.52	0.5%
AUD/GBP	0.5159	0.1%
AUD/NZD	1.1056	-0.1%
AUD/EUR	0.6166	0.1%
AUD/CNH	4.7730	0.0%
AUD/SGD	0.8805	0.1%
AUD/HKD	5.2387	0.2%
AUD/CAD	0.9275	0.3%
EUR/USD	1.0933	0.0%
USD/JPY	149.08	0.4%
USD Index	102.89	-0.1%

Equities	Close	Change
S&P/ASX 200	8,215	-0.1%
S&P 500	5,815	0.6%
Japan Nikkei	39,606	0.6%
Hang Seng	21,252	3.0%
Euro Stoxx 50	5,004	0.7%
UK FTSE100	8,254	0.2%
VIX Index	20.46	-2.2%

Commodities	Current	Change
CRB Index	290.99	0.0%
Gold	2656.59	1.0%
Copper	9652.42	0.7%
Oil (WTI futures)	75.56	-0.4%
Coal (coking)	220.50	1.8%
Coal (thermal)	153.15	-0.4%
Iron Ore	107.50	1.7%
ACCU	36.88	1.7%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.35	-0.01
90 day BBSY	4.47	0.00
180 day BBSY	4.67	-0.01
1 year swap	4.14	0.02
2 year swap	3.88	0.02
3 year swap	3.80	0.00
4 year swap	3.80	-0.01
5 year swap	3.86	-0.01
6 year swap	3.92	-0.01
7 year swap	3.99	0.00
8 year swap	4.06	0.02
9 year swap	4.12	0.00
10 year swap	4.31	0.02

Government Bond Yields	Close	Change
Australia		
3 year bond	3.78	-0.01
10 year bond	4.23	0.00
United States		
3-month T Bill	4.51	-0.02
2 year bond	3.96	0.00
10 year bond	4.10	0.04
Other (10 year yields)		
Germany	2.27	0.01
Japan	0.95	-0.01
UK	4.21	0.00

Sydney Futures Exchange	Current	Change
10 yr bond	4.25	0.02
3 yr bond	3.75	0.01
3 mth bill rate	4.32	0.01
SPI 200	8,296	0.6%

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 earnings season kicked off with stocks hitting all-time highs as big banks posted solid results. The S&P 500 gained 0.6% to a fresh record high, and ended the week 1.1% higher. The Dow Jones and the NASDAQ were up 1.0% and 0.3%, respectively.

Stocks were also higher in Europe on Friday. The Euro Stoxx 50 rose 0.7% to close the week 1.0% higher, while the German Dax and the UK's FTSE 100 rose 0.9% and 0.2%, respectively on Friday.

The ASX 200 closed down 0.1% on Friday but remained 0.8% higher over the week. Futures were up about 0.6%. Other Asian markets were mixed on Friday, the Nikkei finished up 0.6%, while Chinese benchmarks showed a contrasting picture but remained volatile. The Hang Seng climbed 3.0%, while the CSI 300 was down 2.8%. All eyes will be on Chinese markets at the open this morning to gauge the response to the Ministry of Finance press conference on Saturday.

Interest rates:

Moves were fairly modest in US rates markets with the short-end of the curve outperforming. The 2-year yield was flat at 3.96%, while the 10-year yield gained 4 basis points to 4.10%, its highest close since July 30.

Markets are pricing in around an 80% chance of a Fed rate cut in November with around 41 basis points of cuts priced in by year-end.

Aussie bond futures were little changed. The 3-year futures yield rose 1 basis points to 3.75%, while the 10-year was up 2 basis points to 4.25%. Markets are pricing in around a 40% chance the RBA cuts rates this year, though a cut is not fully priced until April 2025.

Foreign exchange:

The US dollar was broadly flat on Friday, sticking to a fairly narrow range between 102.77 and 102.99. Risk off swings on geopolitical flare ups are likely to keep the US dollar well supported, along with the upcoming US Federal Election. However, the gradual Fed easing narrative remains critical as markets have moved a long way to pare rate cuts.

The Aussie dollar continued to dawdle in the 0.6700-0.6750 range and has opened slightly lower this morning following Saturday's Ministry of Finance briefing in China. The near-term risks to the Aussie remain skewed to the downside, with rates markets more closely resembling the RBA's guidance on rate cuts, a clear lack of appetite from Chinese Authorities to fire the fiscal bazooka and fragile geopolitical conditions in the Middle East. A change in fortunes for

Today's key data and events

Time	Event	Exp	Prev
8:45am	NZ Retail Card Spending Sep		0.2%
6pm	CH Trade Balance Sep	US\$91.0b	US\$91.0b

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.

the Aussie likely rests offshore with economic faltering US economic data or a big surprise on Chinese stimulus likely required to turn the tide.

The euro held stead in the 1.0900-1.0950 range on Friday and was sitting around 1.0933 in early trade this morning. The ECB's policy meeting on Thursday will be critical for the euro. The meeting is well and truly live, with the odds of a 25-basis point cut sitting around 95%. Should the ECB deliver, the focus will be on their caution around resilient services inflation.

The Japanese Yen also held recent ranges, with the USD/JPY trading between 148.41 and 149.28 on Friday. The narrative on the Japanese leg appears well entrenched, a very gradual removal of monetary policy support as momentum in the economy only incrementally builds. However, the general election later this month does present some event risk. The near-term prospects for the Yen likely rest on the US dollar side, with risks tilted to the downside should the US exceptionalism story continue.

Commodities:

Crude markets softened given no signs of imminent of retaliation from Israel for recent Iranian missile attacks though the US expanded its sanctions on Iran and sent advanced missile defence systems plus troops to Israel. West Texas Intermediate (WTI) futures were down 0.4% at US\$75.56.

Metals generally closed higher in expectations of the weekend fiscal policy announcement in China. Copper closed up 0.7% at \$9,652 while aluminium jumped a notable 2.0% to \$2,638. Driving the jump in aluminium, Emirates Global Aluminium was reported as seeking clarity from customs authorities in Guinea after bauxite exports were halted. Bauxite is fed into refineries making alumina and alumina prices in China have hit the highest level since contracts were launched in 2023.

Iron ore saw further modest gains over the weekend, despite press suggesting that the fiscal briefing underwhelmed on Saturday. Futures in Singapore are 1.7% at US\$107.50.

Australia:

There were no major economic data releases on Friday.

China:

Saturday's Ministry of Finance briefing failed to deliver significant new fiscal stimulus many had been hoping for. The government will issue more debt to boost the ailing property market, increase efforts to recapitalise

banks and help cash-strapped local governments

There was no indication of the price tag of the announced stimulus or any future packages though it was signalled that details would come when China's legislature meet in the coming weeks.

Chinese consumer price index (CPI) data was a fresh reminder that the world's second-largest economy desperately needs fresh support. The CPI rose 0.4% over the year to September, falling short of expectations for a 0.6% gain, which would have been unchanged on August. The core rate fell to just 0.1%, the lowest level in around 3½ years. There were also no signs of any upstream price pressures manifesting with producer price inflation was slowing. The headline rate dropped by a full percentage point to -2.8% over the year to September, the bottom of the range seen since the end of last year.

New Zealand:

Net migration slowed to 1.8k in August, the slowest monthly increase in net migration since June 2022.

United Kingdom:

The monthly GDP figures suggested that after two months of stagnation, the UK economy returned to growth in August, with output rising by 0.2% in the month. The monthly growth profile now suggests that an increase of at least 0.3% is needed in September for the economy to reach 0.3% quarterly growth that the Bank of England expects. It might be a tall order, not least given that PMIs and other sentiment surveys suggested weakening momentum in September.

United States:

While last week's CPI data was slightly stronger than expected, the producer price index (PPI) numbers for September were a touch below consensus.

The headline index was flat in the month, slowing from 0.2% growth in August. Excluding energy and food, the PPI was still up 0.2% in the month, down from a 0.3% rise in August. This matched the average monthly increase so far in 2024.

The University of Michigan consumer sentiment survey suggested that political uncertainty might be weighing on the mood of US consumers ahead of the Presidential Election in a few weeks.

The survey recorded the first drop in three months from a five-month high of 70.1 to 68.9. Before the pandemic in 2019 the index averaged 96. The one-year ahead inflation expectations rose slightly from 2.7% to 2.9% while long-term inflation expectations 5-10 years ahead ticked down back to 3%.



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