15 October 2024

MORNING REPORT

Today's economic developments and market movements.

Key themes

US equities were higher with major indices closing at fresh record highs in thin trading. European and Asian markets were also generally higher.

US debt markets were closed for Columbus Day. Communication from Fed officials continued to suggest a more cautious approach to easing rates.

The US dollar index was higher, with the Aussie showing some further weakness against the Greenback.

Oil was lower while iron ore was higher.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	62.4	0.0%
AUD/USD	0.6723	-0.4%
AUD/JPY	100.68	0.0%
AUD/GBP	0.5150	-0.3%
AUD/NZD	1.1035	-0.1%
AUD/EUR	0.6166	-0.1%
AUD/CNH	4.7715	0.0%
AUD/SGD	0.8797	-0.1%
AUD/HKD	5.2201	-0.5%
AUD/CAD	0.9274	-0.2%
EUR/USD	1.0905	-0.3%
USD/JPY	149.75	0.4%
USD Index	103.23	0.3%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.35	0.00
90 day BBSY	4.47	0.00
180 day BBSY	4.66	-0.01
1 year swap	4.16	0.02
2 year swap	3.92	0.03
3 year swap	3.85	0.05
4 year swap	3.85	0.06
5 year swap	3.91	0.05
6 year swap	3.98	0.06
7 year swap	4.05	0.06
8 year swap	4.12	0.06
9 year swap	4.18	0.06
10 year swap	4.36	0.05

Equities	Close	Change
S&P/ASX 200	8,253	0.5%
S&P 500	5,868	0.9%
Japan Nikkei	39,606	0.6%
Hang Seng	21,093	-0.7%
Euro Stoxx 50	5,041	0.7%
UK FTSE100	8,293	0.5%
VIX Index	19.77	-3.4%

Commodities	Current	Change
CRB Index	287.13	-1.3%
Gold	2653.36	-0.1%
Copper	9652.42	0.7%
Oil (WTI futures)	73.92	-2.2%
Coal (coking)	220.00	-0.2%
Coal (thermal)	150.90	1.0%
Iron Ore	107.20	1.3%
ACCU	36.88	0.0%

Government Bond Yields	Close	Change
Australia		
3 year bond	3.80	0.03
10 year bond	4.27	0.04
United States		
3-month T Bill	4.51	-0.01
2 year bond	3.96	0.00
10 year bond	4.10	0.00
Other (10 year yields)		
Germany	2.28	0.01
Japan	0.95	0.00
UK	4.24	0.03

Sydney Futures Exchange	Current	Change
10 yr bond	4.29	0.00
3 yr bond	3.77	0.00
3 mth bill rate	4.32	0.00
SPI 200	8,321	0.4%

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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Today's key data and events

Time	Event	Exp	Prev
3:30pm	JN Industrial Production Aug final		-3.3%
5:00pm	UK ILO Unemployment Rate Aug	4.1%	4.1%
8:00pm	EU ZEW Expectations Oct	10.0	3.6
	EU Industrial Production Aug	1.8%	-0.3%
11:30pm	US NY Empire Manufacturing Oct	3.6	11.5

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.

Share markets:

US equities were higher with major indices closing at fresh record highs ahead of key Q3 earning reports scheduled for later this week. The gains were broad-based, with tech stocks leading the way and Nvidia lifting 2.4% to close at a new record high.

Bank of America, Goldman Sachs and Citigroup are scheduled to report overnight. This follows strong earnings released last week by the likes of JPMorgan and Wells Fargo.

The S&P 500 gained 0.8% to close at a fresh record high. The Dow Jones closed 0.5% higher, while the NASDAQ was 0.9% higher.

European stocks were also higher ahead of the ECB meeting later this week. The Euro Stoxx 50 and the DAX both closed 0.7% higher. The FTSE 100 gained 0.5%.

In Asia, markets look to have taken a positive view on China's fiscal policy announcements over the past few days. The CSI 300 closed 1.9% higher after a choppy session. The Nikkei closed 0.6% in the green, while the Hang Seng was 0.8% lower.

The ASX200 index rose 0.5%, led by material stocks. Three of eleven sectors were higher. Futures are pointing to a solid open this morning.

Interest rates:

US debt markets were closed for Columbus Day. The US 2-year bond yield is currently 3.96%, while the 10-year yield is 4.10%.

Markets are much less certain about the prospect of ongoing Fed rate cuts. Interest-rate markets are pricing in around 50 basis points of cuts by the US Fed over the remainder of 2024 and 145 basis points by the end of 2025.

Bond yields were also higher across Europe. The 10-year Gilt increased 3 basis points to 4.24%, with the 2-year Glit increased one basis point to 4.18%. The German 10-year Bund yield rose one basis point to 2.28% and the 2-year yield increased 2 basis point to 2.26%.

Australian yields were broadly unchanged overnight. Markets are pricing around 10 basis points of cuts by the end of 2024. The first full rate cut is now expected by April 2025, with around 78 basis points of cuts expected over 2025.

Foreign exchange:

The US dollar index firmed (+0.3%), reaching a high of 103.36 before settling at around 103.23. Fed Chair Powell's cautious path for further easing was reiterated in Fed communication overnight, supporting the US dollar.

The Aussie was lower (-0.4%) against the Greenback, reaching a low of 0.6702 before settling at around 0.6723. The pair was supported by reports China may issue CNY6trn in special bonds over 3 years to fund stimulus measures. The near-term backdrop remains challenging for the AUD/USD pair: fading yield support, soft data out of China (including last night's trade numbers), ongoing geopolitical tensions pose downside risks.

Commodities:

Oil was lower as OPEC cut demand forecasts for the third month, with media reports suggesting Saudi Arabia may "open the spigot" later this year in response to other members overproduction. The West Texas Intermediate (WTI) futures declined 2.2% to US$73.92 per barrel.

Iron ore remains elevated with Futures in Singapore 1.3% higher at USD107.20/t.

Metals were down across the board as the US dollar index strengthened and frustration over Chinese stimulus weighed on sentiment. Copper is probing down towards the low USD9,600 area while aluminium dipped below USD2,600.

Australia:

There were no major economic data releases.

China:

The trade surplus increased to USD81.7bn in September from the USD75.5bn recorded a year ago. This was lower than the USD90.5bn expected by the market. Exports grew 2.4%yr, well down on the 6.0% gain expected by the market. This was the softest pace in five months and a step down from the 8.7%yr gain in August. Import growth was subdued, up 0.3%yr, broadly in line with the 0.8%yr increase expected by the market. The trade surplus with the US narrowed to USD33.3bn in September from USD33.8bn in August.

Weakening external demand confirms the need for government support. Yesterday Chinese officials extended the list of support measures by suggesting that the government will be taking steps to support business growth, attract business investment and encourage fairer treatment of businesses by regulators and government authorities.

Growth in the aggregate financing slowed to 8%yr, the lowest level since the series started in 2017. The breakdown of monthly credit flows suggested that news credit in September was mainly driven by the public sector borrowing, while the private sector borrowing was below average.

New Zealand:

Retail spending was flat in September, following a 0.2% rise in August. Increases in the purchases of hospitality goods/services, consumables, and apparel were offset by declines in spending on fuel and durables. On an annual basis, retail spending declined 5.6% in September. Core retail spending (excluding fuel) was 0.3% higher in September but was 4.0% lower in annual terms. The downturn in spending seen over the first half of the year seems to be stabilising, on the back of the tax cuts which kicked in from 31 July.

United States:

Fed Committee member, Christopher Waller, said recent economic data is supportive of a more cautious approach to policy. He said “I view the totality of the data as saying monetary policy should proceed with more caution on the pace of rate cuts than was needed at the September meeting. We can proceed with moving policy toward a neutral stance at a deliberate pace.”

Minneapolis Fed President Neel Kashkari said he expects “modest reductions” in the federal funds rate over the coming quarters. He also noted that it’s “unclear” just how restrictive the current policy is and there’s no sign of a rapid weakening in the labour market.

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