30 October 2024

MORNING REPORT

Today's economic developments and market movements.

Key themes

US stocks gained as large tech stocks pushed higher; the NASDAQ rose to a fresh record high.

Strong demand for an auction of 7-year treasury notes helped underpin a modest bid tone in US rates markets.

Demand to hedge (or speculate on) significant event risk over the next couple of weeks pushed implied volatility in the treasury market to its highest level since October 2023.

The US dollar was little changed overnight, Aussie dollar underperformance continued with the AUD/USD falling to an 11-week low.

Reuters reported that China was considering a $1.4tn debt package which could be increased if Trump wins the November 5 election but there has so far been little market response.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	61.5	-0.5%
AUD/USD	0.6560	-0.3%
AUD/JPY	100.60	-0.3%
AUD/GBP	0.5040	-0.7%
AUD/NZD	1.0985	-0.2%
AUD/EUR	0.6064	-0.4%
AUD/CNH	4.6858	-0.4%
AUD/SGD	0.8687	-0.2%
AUD/HKD	5.0976	-0.4%
AUD/CAD	0.9129	-0.2%
EUR/USD	1.0817	0.0%
USD/JPY	153.36	0.0%
USD Index	104.29	0.0%

Equities	Close	Change
S&P/ASX 200	8,249	0.3%
S&P 500	5,833	0.2%
Japan Nikkei	38,904	0.8%
Hang Seng	20,701	0.5%
Euro Stoxx 50	4,950	-0.4%
UK FTSE100	8,220	-0.8%
VIX Index	19.34	-2.3%

Commodities	Current	Change
CRB Index	278.33	0.2%
Gold	2773.69	1.1%
Copper	9426.04	-0.1%
Oil (WTI futures)	67.51	0.2%
Coal (coking)	208.50	0.5%
Coal (thermal)	146.90	0.3%
Iron Ore	103.50	0.2%
ACCU	37.75	-0.3%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.36	0.00
90 day BBSY	4.44	0.00
180 day BBSY	4.64	0.01
1 year swap	4.20	-0.01
2 year swap	4.02	0.00
3 year swap	3.98	0.01
4 year swap	4.00	0.00
5 year swap	4.05	0.00
6 year swap	4.12	0.00
7 year swap	4.20	0.00
8 year swap	4.27	0.00
9 year swap	4.33	0.00
10 year swap	4.50	-0.02

Government Bond Yields	Close	Change
Australia		
3 year bond	3.95	-0.03
10 year bond	4.45	-0.04
United States		
3-month T Bill	4.47	-0.02
2 year bond	4.10	-0.04
10 year bond	4.25	-0.03
Other (10 year yields)		
Germany	2.34	0.05
Japan	0.98	0.00
UK	4.32	0.06

Sydney Futures Exchange	Current	Change
10 yr bond	4.47	0.02
3 yr bond	3.93	0.00
3 mth bill rate	4.35	0.01
SPI 200	8,268	-0.1%

Data as at 7:50am 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
11:30am	AU CPI Q3	0.3%	1.0%
	AU Trimmed Mean CPI Q3	0.7%	0.8%
9pm	EZ Consumer Confidence Oct Final		-12.5
	EZ Economic Confidence Oct	96.3	96.2
	EZ GDP Q3 Advance Est.	0.2%	0.2%
11:15pm	US ADP Employment Chg. Oct	110k	143k
11:30pm	US GDP Annualised Advance Est. Q3	3.0%	3.0%
	US Core PCE Index Advance Est. Q3	2.0%	2.8%
1am	US Pending Home Sales Sep	1.9%	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.

Share markets:

US stocks gained as large tech stocks pushed higher. The S&P 500 rose 0.2%, while the NASDAQ was up 0.80% to a record high.

Equities were less upbeat in Europe. The Euro Stoxx 50 was down 0.4% while the German Dax and the UK's FTSE 100 slipped 0.3% and 0.8%, respectively.

The ASX 200 gained 0.3% yesterday, joining broad gains across Asian markets. The Nikkei rose 0.8% in Japan, while stocks were up 0.5% in Hong Kong.

Interest rates:

Strong demand for an auction of 7-year treasury notes overnight helped underpin a modest bid tone in US rates markets. The 2-year yield was down 4 basis points to 4.10%. The 10-year yield finished 3 basis points lower at 4.25% after earlier reaching a 3-month high of 4.34%. Demand to hedge (or speculate on) significant event risk over the next couple of weeks pushed implied volatility in the treasury market to its highest level since October 2023.

The implied odds of a November Fed rate from swaps markets is sitting around 97%, with the chance of a second cut before year-end running just below 60%.

The fixed income sell-off continued in the UK and Germany with 2-and-10-year yields up around 4-6 basis points in a bear steepening move.

Aussie bond futures were little changed. The 3-year futures yield was flat at 3.93%, while the 10-year was 2 basis points higher overnight to 4.47%.

Markets have continued to push out the expected timing of RBA rate cuts. A cut in February next year is now just 64% priced in with a full 25-basis point cut priced in by May.

Foreign exchange:

The US dollar was little changed overnight after unwinding an earlier move higher to a near 3-month high of 104.64. Understandably, the squeeze higher in the US dollar has taken a breather ahead of significant two-way event risk this week, kicking off tonight with the US Treasury quarterly refunding announcement.

The Aussie dollar and the Japanese Yen continue to underperform the broader G-10 basket with the Aussie particularly soft over the last 24-hours. The Aussie dollar made light work of support around the 0.6580 region, probing to an 11-week low of 0.6545 before retracing some of the move lower to trade around 0.6560 at the time of writing. The Australian economy's sensitivity to China has been a key driver of underperformance, with the Aussie dollar moving in lockstep with the offshore Yuan since the start of August. Underwhelming fiscal support for the Chinese economy and uncertainty around future announcements is combining with US election risks to undergird weakness in the Aussie dollar and Chinese Yuan.

The euro and British Pound look to have found a tentative floor ahead of key event risk over the next couple of weeks. The euro and the Pound were both slightly firmer overnight and were trading around 1.0817 and 1.3011 at the time of writing.

Commodities:

Crude markets fell again despite a Reuters report that China was considering a $1.4tn debt package which could be increased if Trump wins the November 5 election.

West Texas Intermediate (WTI) futures are down 0.224% at $67.51. The focus remains on Middle East developments with Israeli PM Netanyahu expected to hold a meeting about a diplomatic solution.

Traders and analysts are becoming more divided on whether or not OPEC will go ahead with the planned production increase in December. On current plans, OPEC+ will increase production by 180k barrels per day in December as it brings back the voluntary cuts announced in 2022.

Metals were unimpressed by those Reuters headlines on China stimulus with the focus on the US election, rising rates and the strong US dollar. Copper edged down 0.1% to US$9,426, nickel is down 0.7% at $15,905 and zinc is down 0.4% at $3,127. However, aluminium outperformed, up 0.6% at $2,660. Aluminium is approaching 2 year highs, driven by the surge in alumina prices.

Iron ore markets were also unimpressed with the China fiscal policy headlines and news of suspension of port activity at the massive Simandou project in Guinea after an employee death. Futures are up 0.2% at US$103.50.

Gold popped higher overnight, reaching a fresh record high of $2,774.87. Gold prices have been supported by US election risk, global geopolitical uncertainty and swelling US debt levels.

Australia:

There were no major economic data releases yesterday.

United States:

JOLTS job openings disappointed slightly in September at 7.4m after August was revised marginally lower to 7.9m. The hiring rate was little changed in the month at 3.5%, down from 3.7% a year ago. While the quit rate edged lower to 1.9% from 2.0% in August and 2.3% a year ago. The survey remains consistent with a labour market that is neither a concern for inflation or activity growth.

Conference Board consumer confidence jumped higher in October from 99.2 to 108.7. Views on the present situation and expectations both improved materially in the month. Inflation expectations remained consistent with a sustained return to the inflation target.

House price growth remained solid in August, the S&P-CS 20-city measure gaining 0.35% in the month to keep annual growth above 5.0%. FHFA house prices showed similar momentum in the month, up 0.3%. The outlook for rates and the labour market are supportive of continued gains, so too the supply/demand balance.

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