31 October 2024

MORNING REPORT

Today's economic developments and market movements.

Key themes

GDP data reaffirmed that the US economy remains sound, despite a slight miss on the headline number. Activity in the Europe also printed stronger than expected, supporting the case for a gradual easing in policy.

US treasury yields were higher across the curve, as the bear flattening impulse resumed. German Bund yields sold off sharply on a stronger than expected inflation outcome. The 2-year yield slipped 12 while yields were 3-5 basis points firmer in the UK following the release of the Government budget.

The US dollar was a little softer, continuing to consolidate its recent squeeze higher ahead of key event risk later this week. The Aussie dollar finished firmer after bouncing of a fresh multi-month low.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	61.3	-0.3%
AUD/USD	0.6573	0.2%
AUD/JPY	100.82	0.2%
AUD/GBP	0.5071	0.6%
AUD/NZD	1.1002	0.2%
AUD/EUR	0.6054	-0.2%
AUD/CNH	4.6837	-0.1%
AUD/SGD	0.8692	0.1%
AUD/HKD	5.1085	0.2%
AUD/CAD	0.9135	0.1%
EUR/USD	1.0857	0.4%
USD/JPY	153.38	0.0%
USD Index	104.10	-0.2%

Equities	Close	Change
S&P/ASX 200	8,180	-0.8%
S&P 500	5,814	-0.3%
Japan Nikkei	39,277	1.0%
Hang Seng	20,381	-1.5%
Euro Stoxx 50	4,886	-1.3%
UK FTSE100	8,160	-0.7%
VIX Index	20.35	5.2%

Commodities	Current	Change
CRB Index	280.26	0.7%
Gold	2786.14	0.4%
Copper	9435.06	0.1%
Oil (WTI futures)	68.96	2.6%
Coal (coking)	209.50	0.5%
Coal (thermal)	146.00	-0.6%
Iron Ore	103.85	0.1%
ACCU	38.50	2.0%

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	0.00
1 year swap	4.25	0.05
2 year swap	4.06	0.04
3 year swap	4.03	0.04
4 year swap	4.03	0.03
5 year swap	4.08	0.03
6 year swap	4.15	0.02
7 year swap	4.22	0.02
8 year swap	4.28	0.01
9 year swap	4.34	0.01
10 year swap	4.54	0.05

Government Bond Yields	Close	Change
Australia		
3 year bond	3.97	0.02
10 year bond	4.47	0.02
United States		
3-month T Bill	4.46	-0.02
2 year bond	4.17	0.08
10 year bond	4.30	0.04
Other (10 year yields)		
Germany	2.39	0.05
Japan	0.96	-0.02
UK	4.35	0.04

Sydney Futures Exchange	Current	Change
10 yr bond	4.51	0.04
3 yr bond	4.01	0.06
3 mth bill rate	4.38	0.01
SPI 200	8,194	-0.2%

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:

US equities struggled to gain traction before a late sell-off. The S&P 500 slipped 0.3% and the NASDAQ was down 0.6%.

Stocks pulled back in Europe. The Euro Stoxx 50 shed 1.30%, the German DAX was down 1.1%, while the FTSE 100 dropped 0.7% in the UK.

The ASX 200 slipped 0.8% in Asian trade yesterday, while Chinese shares were also softer. The CSI 300 was 0.9% lower while the Hang Seng shed 1.6%. Japan's Nikkei bucked the trend, rising 1.0%.

Interest rates:

US treasury yields were higher across the curve as traders trimmed bets for Fed rate cuts and data provided further evidence of a resilient US economy.

The 2-year yield was up 8 basis points to 4.17% after an early slide to 4.07%. The 10-year also unwound an early trip to 4.20% to finish the day 4 basis point higher at 4.30%. The bear flattening impulse continued across most parts of the yield curve.

The implied odds of November Fed rate cut pulled back to around 90%, the lowest in a week. There's around 125 basis points of rate cuts priced in to the end of 2025.

German Bund yields sold off sharply on a stronger than expected inflation outcome. The 2-year yield slipped 12 basis points to 2.25%. Yields were 3-5 basis points firmer in the UK following the release of the Government budget and broader sell-off in bond markets.

Aussie bond futures also traded soft, the 3-year yield rising 6 basis points to 4.01% and the 10-year yield up 4 basis points to 4.51%. Market pricing continues to push towards a later start to the RBA rate cut cycle with a 25 basis point cut not fully priced until May.

Foreign exchange:

The US dollar pulled back overnight, edging lower against most G-10 currencies. The DXY slipped from a high of 104.44 to a low of 103.98 and was trading around 104.10 at the time of writing. Overall, the DXY continues to consolidate its recent squeeze higher with event risk over the next few days and weeks to determine whether the next move is an extension of reversal of the higher US dollar theme. Data overnight reaffirmed the underlying strength of the US economy, largerly suppoting what's already built into the price rather than providing a fresh catalyst for a renewed push higher.

The Aussie dollar finished higher following sizeable intra-day swings. The AUD/USD initially traded higher in the wake of yesterday's domestic inflation report before sinking to a fresh multi-month low of 0.6537. That level was quickly rejected and the Aussie ground higher during London and New York trade to reach a high of 0.6596. The pair has since pulled back to trade around 0.6576 at the time of writing. Domestic data over the next few days is unlikely to shift the needle for an RBA that's firmly on hold, leaving the prospects for the Aussie squarely in the hands of the US dollar and any potential announcements on policy out of China.

The euro caught a solid bid, supported by firm GDP data and an upsde suprise to German inflation. The EUR/USD jumped from a low of 1.0808 to a high of 1.0871 breaking North of its recent consolidation. Solid data trims the risk of a rapid easing in policy from the European Central Bank, potentially putting the euro on a more solid footing, but the direction of travel for rates remains clear leaving little clear catalysts for a squeeze higher, save for a significant turn in the US dollar.

The Japanese Yen was little changed, treading water around 152.80-153.50. Political instability following last week's surprise election result leaves the Yen vulnerable to further selling pressures, but this will ultimately depend on the direction of travel for to the US dollar.

Commodities:

US crude inventories fell by 515k barrels last week, while stocks at Cushing continued to increase, Enegy Information Administration data showed. West Texas Intermediate futures gained 2.6% to US$68.96 per barrel.

Iron ore was 0.1% firmer at US$103.85 but has largerly drifted sideways over the last four sessions.

Today's key data and events

Time	Event	Exp	Prev
10:50am	JN Retail Sales Sep	–0.3%	1.0%
11am	NZ ANZ Business Confidence Oct		60.9
11:30am	AU Trade Price Indices Q3		
	AU Building Approvals Sep	1.0%	–6.1%
	AU Retail Sales Sep	1.0%	0.7%
	AU Retail Sales Vol. Q3	0.8%	–0.3%
	AU Private Sector Credit Sep	0.5%	0.5%
12:30pm	CH Mfg PMI Oct	49.8	49.8
	CH Services PMI Oct	50.3	50.0
9pm	EZ CPI Oct Prel.	0.2%	–0.1%
	EZ Unemployment Rate Sep	6.4%	6.4%
11:30pm	US Employment Cost Index Q3	0.9%	0.9%
	US Personal Income Sep	0.3%	0.2%
	US Personal Spending Sep	0.4%	0.2%
	US PCE Price Index Sep	0.2%	0.1%
	US Core PCE Price Index Sep	0.3%	0.1%
	US Initial Jobless Claims w/e Oct 26	230k	227k
TBC	JN BoJ Target Rate	0.25%	0.25%

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.

Gold extended gains reaching another fresh record high and is currently up 0.4% at US$2,786. Global gold demand swelled about 5% in the third quarter, setting a record for the period and lifting consumption above $100 billion for the first time, according to the World Gold Council.

Australia:

The September quarter inflation report broadly met expectations. The headline measure, impacted by energy rebates, rose 0.2% in the quarter to be 2.8% over the year to the September quarter.

The policy-sensitive trimmed mean measure rose 0.8% in the quarter to be 3.5% higher over the year. This was down from 4.0% in the June quarter. In six-month annualised terms the trimmed mean measure slowed to 3.3%, suggesting disinflation momentum remains in tact.

With the September quarter consumer price index (CPI) data confirming that the disinflation remains on track and supply-side concerns easing, rate cuts from February still seem the most likely path for the RBA.

Eurozone:

Euro Area GDP surprised to the upside in the September quarter, gaining 0.4% to leave annual growth at 0.9%. Germany's economy escaped recession, activity rising 0.2% in the quarter to offset most of Q2's 0.3% decline. Spain and, to a lesser extent, France showed strength in the September quarter, activity up 0.8% and 0.4%, respectively. These are pleasing results which, along with the disinflation trend, argue for a modest easing cycle into 2025.

German CPI came in hotter than expected in October, rising 0.4% in the month compared to expectations for a 0.2% gain. In annual terms, inflation accelerated to 2.0%, up from 1.6% in September and higher than expectations which centred on a reading of 1.8%.

United Kingdom:

UK Budget delivered on what had largely been leaked to the public over the past month and profiled an increase in tax of £40bn, largely hitting business, that will push tax up to over 38% of GDP during the forecast period. The Budget will increase borrowing by an average of £28bn a year during this Parliament (5 years).

There will also be an investment programme of £100bn that will also be funded by extra borrowing, though that will fall outside of newly defined Public Debt (Public Sector Net Financial Liabilities) in order to provide greater fiscal headroom.

United States:

The US Treasury left its quarterly auctions of longer-term debt unchanged and reiterated its guidance that sizes aren't expected to be increased "for at least the next several quarters."

GDP was broadly in line with our and the market's expectation at 2.8% annualised in the September quarter. However, the consumer was stronger, total consumption growing 3.7% annualised as goods consumption spiked while momentum in services edged lower to an around trend pace. Business investment was mixed, equipment spending experiencing another strong gain. Intangibles investment was essentially flat and inventories a modest drag. Growth in government spending remained robust, house price gains continuing to help state and local government finances. Consistent with a strong consumer, net exports subtracted from growth at the margin. Dwelling investment continued to reverse its strong start to 2024, now only up marginally year-to-date.

US pending home sales jumped 7.4% in September as the Fed began their easing cycle. Over the year, sales are only 2.2% higher though.

ADP employment came in at twice the market's expectation at 233k in October. September's outcome was also revised up at the margin. ADP has typically been a poor guide for nonfarm payrolls month-to-month but, at face value, the October outcome points to upside risks to the soft consensus estimate for Friday's nonfarm payrolls release.

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