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MORNING REPORT

Today's economic developments and market movements.

Key themes

The White House suggested that some furloughed federal workers may not receive back pay when the government reopens, indicating a further escalation of tensions between Republicans and Democrats.

With no resolution to the government shutdown in sight, sentiment in financial markets deteriorated. Major government bonds rallied, and US dollar appreciated 0.6% to 98.7, its highest close since early August.

After a notable rally over the past week and a half, concerns around stretched valuations in US equity markets resurfaced, pushing the S&P 500 index 0.3% lower.

Australian government bond yields followed the upward movement in other major markets from the previous day. The AUD lost 0.6%, as the Westpac–Melbourne Institute Consumer Sentiment Index declined notably for a second consecutive month.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	61.4	0.3%
AUD/USD	0.6580	-0.6%
AUD/JPY	99.96	0.5%
AUD/GBP	0.4903	-0.1%
AUD/NZD	1.1350	0.2%
AUD/EUR	0.5648	0.0%
AUD/CNH	4.7022	-0.5%
AUD/SGD	0.8510	-0.4%
AUD/HKD	5.1209	-0.6%
AUD/CAD	0.9182	-0.5%
EUR/USD	1.1651	-0.5%
USD/JPY	151.93	1.1%
USD Index	98.65	0.6%

Equities	Close	Change
S&P/ASX 200	8,957	-0.3%
S&P 500	6,717	-0.3%
Japan Nikkei	47,951	0.0%
Hang Seng	26,958	-0.7%
Euro Stoxx 50	5,614	-0.3%
UK FTSE100	9,484	0.0%
VIX Index	17.15	4.8%

Commodities	Current	Change
CRB Index	301.07	0.0%
Gold	3981.00	0.5%
Copper	10761.00	1.0%
Oil (WTI futures)	62.08	0.6%
Coal (coking)	194.00	0.1%
Coal (thermal)	108.05	-0.8%
Iron Ore	104.05	-0.1%
ACCU	37.75	10.6%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	3.58	-0.01
90 day BBSY	3.64	0.00
180 day BBSY	3.83	0.02
1 year swap	3.46	-0.02
2 year swap	3.45	-0.03
3 year swap	3.50	-0.04
4 year swap	3.59	-0.03
5 year swap	3.68	-0.03
6 year swap	3.78	-0.03
7 year swap	3.88	-0.04
8 year swap	3.97	-0.04
9 year swap	4.06	-0.04
10 year swap	4.30	-0.03

Government Bond Yields	Close	Change
Australia		
3 year bond	3.57	0.02
10 year bond	4.39	0.05
United States		
3-month T Bill	3.82	0.00
2 year bond	3.57	-0.02
10 year bond	4.13	-0.02
Other (10 year yields)		
Germany	2.71	-0.01
Japan	1.69	-0.01
UK	4.72	-0.02

Sydney Futures Exchange	Current	Change
10 yr bond	4.38	-0.03
3 yr bond	3.58	-0.02
3 mth bill rate	3.58	0.00
SPI 200	8,986	0.0%

Data as at 7:00am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.



Mantas Vanagas
Senior Economist, Westpac Group

Financial Markets:

The White House suggested that some furloughed federal workers may not receive back pay when the government reopens, indicating a further escalation of tensions between Republicans and Democrats. With no resolution to the government shutdown in sight, sentiment in financial markets deteriorated – equities fell, major government bonds rallied, and the US dollar strengthened. Federal Reserve officials continued to express differing views on the economy and current monetary policy settings.

- After a notable rally over the past week and a half, concerns around stretched valuations in US equity markets resurfaced, pushing the S&P 500 index 0.3% lower. Technology stocks led the decline. European markets mirrored this sentiment, with the Euro Stoxx 50 down 0.3% following a similar fall the previous day. In Asia, Chinese equity markets remained closed, while the Nikkei 225 traded flat after starting the week with an almost 5% gain. The local ASX 200 eased by 0.3%.
- Major government bonds advanced. US Treasury yields fell 2-3bp across the curve, with a successful 3Y note auction signalling robust demand. The 10Y yield declined by 2bp to 4.13%. Gilts also strengthened, with gains concentrated at the longer end of the curve. The 10Y Bund yield edged 1bp lower, while the spread between 10Y French government bonds and Bunds widened slightly, as outgoing French Prime Minister Sebastien Lecornu continued talks with other political parties trying to find a way out of the current political deadlock. Australian government bond yields followed the upward movement in other major markets from the previous day, with the 10Y rising 5bp to 4.39%.
- In FX markets, the US dollar appreciated 0.6% to 98.7, its highest close since early August. The yen continued to depreciate following Sanae Takaichi's victory last weekend to lead the LDP and become Japan's next Prime Minister. The EUR and GBP both fell 0.5%, to 1.1650 and 1.3420 respectively. Ahead of today's RBNZ policy announcement, where a cut is widely anticipated, the NZD declined 0.8%. The AUD lost 0.6%, as the Westpac–Melbourne Institute Consumer Sentiment Index declined for a second consecutive month.
- Crude prices maintained their upward trajectory after a smaller-than-expected supply increase was agreed at the OPEC+ meeting last weekend. WTI rose 0.6% to \$62.10. Ongoing uncertainty over the duration of the US government shutdown continued to support gold prices, which rose 0.5% to \$3981.

Today's key data and events

Time	Event	Exp	Prev
6:00am	US Consumer Credit Aug	US\$14b	US\$16b
10:50am	JP Current Account Balance Aug	¥3513.2b	¥2684.3b
12:00pm	NZ RBNZ Policy Decision	2.75%	3.00%

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.

International Data:

The New York Fed Survey of Consumer Expectations showed that inflation expectations are on the rise again. In September, the one-year indicator rose for third consecutive month, to 3.38%yr. Three- and five-year measures also inched slightly higher, to 3.05% and 2.97% respectively. The survey highlighted that the increase in the short-term expectations was the largest among lower earners. A similar measure from the University of Michigan recently reported more stable but much higher inflation expectations above 4.5%.

Remarks from the FOMC members reminded about diverging views on the committee. Fed Governor Stephen Miran, who dissented in the September FOMC meeting voting for a larger 50bp cut, said slowdown in the population growth and the fact that tariffs will generate only limited inflationary pressures mean that there is no much tension between central bank's goals, suggesting that bigger interest rate cuts would be appropriate. Meanwhile, Minneapolis Fed President Neel Kashkari warned that quicker cuts would risk igniting inflation again.

Local Data:

In Australia, the Westpac–Melbourne Institute Consumer Sentiment Index declined 3.5% to 92.1 in October from 95.4 in September ([see here](#)).

In New Zealand, the NZIER survey suggests that the economy remained sluggish in Q3 ([see here](#)).



Corporate Directory

Westpac Economics / Australia

Sydney

Level 19, 275 Kent Street
Sydney NSW 2000
Australia

E: economics@westpac.com.au

Luci Ellis

Chief Economist Westpac Group
E: luci.ellis@westpac.com.au

Matthew Hassan

Head of Australian Macro-Forecasting
E: mhassan@westpac.com.au

Elliot Clarke

Head of International Economics
E: eclarke@westpac.com.au

Sian Fenner

Head of Business and Industry Economics
E: sian.fenner@westpac.com.au

Justin Smirk

Senior Economist
E: jsmirk@westpac.com.au

Pat Bustamante

Senior Economist
E: pat.bustamante@westpac.com.au

Mantas Vanagas

Senior Economist
E: mantas.vanagas@westpac.com.au

Ryan Wells

Economist
E: ryan.wells@westpac.com.au

Illiana Jain

Economist
E: illiana.jain@westpac.com.au

Neha Sharma

Economist
E: neha.sharma1@westpac.com.au

Westpac Economics / New Zealand

Auckland

Takutai on the Square
Level 8, 16 Takutai Square
Auckland, New Zealand

E: economics@westpac.co.nz

Kelly Eckhold

Chief Economist NZ
E: kelly.eckhold@westpac.co.nz

Michael Gordon

Senior Economist
E: michael.gordon@westpac.co.nz

Darren Gibbs

Senior Economist
E: darren.gibbs@westpac.co.nz

Satish Ranchhod

Senior Economist
E: satish.ranchhod@westpac.co.nz

Paul Clark

Industry Economist
E: paul.clarke@westpac.co.nz

Westpac Economics / Fiji

Suva

1 Thomson Street
Suva, Fiji

Shamal Chand

Senior Economist
E: shamal.chand@westpac.com.au



westpaciq.com.au

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