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MORNING REPORT

Today's economic developments and market movements.

Key themes

Financial markets are confident that the next week's FOMC meeting will result in another 25bp fed funds rate cut, and the unexpected decline in ADP private sector payrolls reinforced these expectations, indicating that the US labour market continues to slow.

It was a volatile session for Australian financial markets, as investors responded to the release of the September quarter national accounts. The headline GDP data surprised to the downside, with growth easing from 0.7%qtr to 0.4%qtr, falling short of both our forecasts and consensus expectations.

US equity markets continued to advance, and the US Treasuries rallied across the curve. The DXY depreciated 0.5%.

Following the national accounts release, the AUD fell 0.3% but subsequently reversed and finished the day 0.6% higher.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	61.5	0.3%
AUD/USD	0.6601	0.6%
AUD/JPY	102.44	0.1%
AUD/GBP	0.4945	-0.5%
AUD/NZD	1.1432	-0.1%
AUD/EUR	0.5656	0.1%
AUD/CNH	4.6588	0.4%
AUD/SGD	0.8540	0.3%
AUD/HKD	5.1380	0.5%
AUD/CAD	0.9208	0.4%
EUR/USD	1.1669	0.4%
USD/JPY	155.19	-0.4%
USD Index	98.87	-0.5%

Equities	Close	Change
S&P/ASX 200	8,595	0.2%
S&P 500	6,861	0.5%
Japan Nikkei	49,865	1.1%
Hang Seng	25,761	-1.3%
Euro Stoxx 50	5,695	0.1%
UK FTSE100	9,692	-0.1%
VIX Index	16.01	-3.5%

Commodities	Current	Change
CRB Index	302.26	0.5%
Gold	4210.16	0.1%
Copper	11488.00	3.1%
Oil (WTI futures)	59.00	0.6%
Coal (coking)	207.25	2.0%
Coal (thermal)	109.00	-1.0%
Iron Ore	104.40	0.3%
ACCU	37.75	10.6%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	3.60	0.00
90 day BBSY	3.72	0.00
180 day BBSY	4.03	0.01
1 year swap	3.76	0.02
2 year swap	3.88	0.04
3 year swap	3.97	0.03
4 year swap	4.05	0.02
5 year swap	4.13	0.01
6 year swap	4.20	0.00
7 year swap	4.28	0.00
8 year swap	4.35	-0.01
9 year swap	4.42	-0.01
10 year swap	4.68	-0.01

Government Bond Yields	Close	Change
Australia		
3 year bond	3.98	0.06
10 year bond	4.64	0.03
United States		
3-month T Bill	3.63	-0.04
2 year bond	3.48	-0.02
10 year bond	4.06	-0.03
Other (10 year yields)		
Germany	2.75	0.00
Japan	1.89	0.03
UK	4.45	-0.02

Sydney Futures Exchange	Current	Change
10 yr bond	4.63	-0.03
3 yr bond	4.00	-0.01
3 mth bill rate	3.68	0.00
SPI 200	8,618	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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Financial Markets:

Ahead of next week's FOMC meeting, financial markets are confident that it will result in another 25bp fed funds rate cut. The unexpected decline in US private sector payrolls, as reported overnight by ADP, reinforced these expectations, indicating that the US labour market continues to slow.

It was a volatile session for Australian financial markets, as investors responded to the release of the September quarter national accounts. The headline GDP data surprised to the downside, with growth easing from 0.7%qtr to 0.4%qtr, falling short of both our forecasts and consensus expectations. Many investors also noted that unit labour costs rose 4.9%yr, exceeding levels consistent with the 2-3% RBA's inflation target.

It is worth highlighting that the underlying momentum as reflected by domestic demand growth was stronger than the headline figures suggested, picking up a solid 1.2%qtr, while the headline growth was pushed lower by volatile components – inventory accumulation, net trade and statistical adjustment. Additionally, we suspect that unit labour costs were inflated by the timing of school holidays, which likely led to more leave-taking than usual. This negatively impacted output but left labour compensation unaffected. Please refer to our [full analysis of the September quarter national accounts](#) for further detail.

- US equity markets continued to advance, as expectations of lower interest rates supported valuations. The S&P500 rose 0.5%, despite a pullback in tech stocks. European equities also traded higher, although the Euro Stoxx 50 gained only 0.1% after paring initial gains driven by the retail sector. The FTSE100 in the UK ended the day down 0.1%. Asian markets were mixed: the Nikkei225 in Japan rebounded 1.1% following losses earlier in the week, while the Hang Seng and Chinese equities declined. The Australian ASX200 increased by 0.2%.
- US Treasuries rallied across the curve, with the 10Y yield falling 3bp to 4.06%, following an 8bp rise at the start of the week. Short-end yields declined by 2bp. Market pricing now implies a near 100% probability of a fed funds rate cut next week. German Bunds were largely unchanged, while Gilts produced mixed results – the 10Y yield fell 2bp, whereas the 2Y yield rose 1bp. Longer-dated JGBs continued to sell off, with yields climbing higher – the 10Y increased by 3bp to 1.89%.
- In Australia, the 10Y yield dropped approximately 5bp following the national accounts release, but then recovered as investors parsed through nuances of the September quarter growth estimates. It ended the day 3bp higher, at 4.64%. Financial markets have turned even more hawkish about the outlook for the RBA policy, pricing in 90% chance of a cash rate increase next year.
- Weaker US labour market data prompted a 0.5% decline in the

Today's key data and events

Time	Event	Exp	Prev
11:30	AU Trade Balance Oct	\$4500m	\$3938m
11:30	AU Household Spending Oct	0.6%	0.2%
21:00	EZ Retail Sales Oct	0.0%	-0.1%
0:30	US Initial Jobless Claims	222k	216k

Times are AEDT. 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.

DXY. At 98.87, it dipped below the 99.0 level for the first time since late October. The EUR appreciated by 0.4%, while GBP outperformed, gaining 1.0%. Following the national accounts release, the AUD fell 0.3% but subsequently reversed and continued to climb throughout the session, finishing the day 0.6% higher, at 0.66.

- The lack of progress in achieving peace in the Russia-Ukraine conflict during US envoy Steve Witkoff's visit to Moscow supported crude prices. January WTI rose 0.5%, despite the EIA reporting a larger than expected increase in US oil inventories. Copper rallied by 3.1% to new record highs, driven by robust US demand in anticipation of new import tariffs.

International Data:

ADP private employment disappointed in November, falling 32k in the month, which was the lowest result in this cycle. The reading largely offset October's 47k gain and was similar to 29k drop in September. Looking through this volatility, in the last five months the ADP report an average increase of 17k, down from the average growth of 81k in the first half of this year.

In contrast to the ISM manufacturing PMI index released earlier in the week, which showed a further deterioration in business sentiment, the **US ISM services PMI** index edged higher in November, from 52.4 to a nine-month high of 52.6. While the activity index also rose by 0.2pt to 54.5, new orders deteriorated, from 56.2 to 52.9, and the employment index remained in the contractionary territory for a sixth month in a row, at 48.9. Prices paid eased back in the month from an elevated 70.0 to 65.4, still well above of long-run average close to 60.

US industrial production rose 0.1%moth in September, but this only partly offset the 0.3%moth decline reported for August. Manufacturing production was flat, but utilities rose 1.1%moth. In Q3, industrial production gained 0.3%qtr, similar to 0.4% growth reported in Q2.

US import prices were flat in the month and up 0.2%moth excluding petroleum. Over the year, total import prices are up 0.3%.



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