27 June 2024

MORNING REPORT

Today's economic developments and market movements.

Key themes

Yesterday's domestic monthly inflation indicator prompted large moves in Aussie rates markets with the short-end of the yield curve jumping sharply.

The move continued overnight on futures, following a broader rise in yields in the US and Europe.

The US dollar firmed, jumping back above 106 on a DXY basis.

The Japanese Yen continued to weaken, breaking through previous intervention levels and hitting fresh lows since the late 80's.

The Aussie dollar outperformed a broader sell-off against the US dollar. However, the steep improvement in interest rate differentials failed trigger a meaningful move higher.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	63.9	0.5%
AUD/USD	0.6650	0.0%
AUD/JPY	106.90	0.7%
AUD/GBP	0.5268	0.5%
AUD/NZD	1.0929	0.7%
AUD/EUR	0.6225	0.3%
AUD/CNH	4.8539	0.2%
AUD/SGD	0.9033	0.3%
AUD/HKD	5.192	0.0%
AUD/CAD	0.9109	0.3%
EUR/USD	1.068	-0.3%
USD/JPY	160.77	0.7%
USD Index	106.05	0.4%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.35	0.00
90 day BBSY	4.45	0.00
180 day BBSY	4.72	0.01
1 year swap	4.52	0.17
2 year swap	4.40	0.22
3 year swap	4.30	0.22
4 year swap	4.27	0.21
5 year swap	4.26	0.20
6 year swap	4.28	0.19
7 year swap	4.31	0.19
8 year swap	4.36	0.18
9 year swap	4.39	0.17
10 year swap	4.57	0.21

Equities	Close	Change
S&P/ASX 200	7,783	-0.7%
S&P 500	5,478	0.2%
Japan Nikkei	39,667	1.3%
Hang Seng	18,090	0.1%
Euro Stoxx 50	4,916	-0.4%
UK FTSE100	8,225	-0.3%
VIX Index	12.55	-2.3%

Commodities	Current	Change
CRB Index	291.29	-0.3%
Gold	2298.23	-0.9%
Copper	9441.31	-0.3%
Oil (WTI futures)	80.90	0.1%
Coal (thermal)	249.00	0.0%
Coal (coking)	133.00	-2.4%
Iron Ore	106.25	3.2%
ACCU	34.38	1.9%

Government Bond Yields	Close	Change
Australia		
3 year bond	4.10	0.18
10 year bond	4.31	0.11
United States		
3-month T Bill	5.23	0.02
2 year bond	4.75	0.00
10 year bond	4.33	0.08
Other (10 year yields)		
Germany	2.45	0.04
Japan	1.03	0.03
UK	4.13	0.05

Sydney Futures Exchange	Current	Change
10 yr bond	4.42	0.11
3 yr bond	4.16	0.09
3 mth bill rate	4.56	0.05
SPI 200	7,689	-1.1%

Data as at 8:00m 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 equtiies pushed higher, the S&P 500 gaining 0.2% while the NASDAQ closed up 0.5%. Risk was less in favour in Europe, the Euro Stoxx 50 shed 0.4%, while the German Dax and British FTSE 100 were down 0.1% and 0.3%, respectively.

The ASX 200 stuck out like a sore thumb in Asian markets yesterday for all the wrong reasons. The local bourse tumbled 0.7%; an early slide only exacerbated by a hotter-than expected May inflation indicator.

The fall stood in stark contrast to solid gains in Tokyo and Shanghai, though these moves were likely underpinned by further depreciation in the Japanese Yen and Chinese Yuan. ASX futures moved even lower overnight, pointing to continued weakness on the open this morning.

Interest rates:

A $70bn auction of 5-year US treasuries showed signs of good demand. The yield curve bear steepened as US 10-year yields climbed 8 basis points to 4.33% and the 2-year rate held steady at 4.75% after a round-trip via 4.70%.

Swaps markets continue to imply just one rate cut from the Fed in 2024, with the odds of a second hovering just below 70%.

The upside surprise in the domestic inflation indicator prompted some outsized moves in Aussie rates yesterday. The 3-year yield piled on 18 basis points to 4.10% - the biggest one-day gain since April 24 when the March quarter inflation report came in hotter-than-expected.

This wasn't to be outdone by the 3-year swap rate, which jumped 22 basis points to 4.30% - its biggest one-day gain since June 2022.

The longer-end of the curve held a little more nerve, the 10-year yield rising 11 basis points to 4.31%, comfortably within its recent range. The 2-10-year portion of the Australian rates curve is now its flattest since early August 2023 at around 10 basis points.

Bond futures continued to sell-off overnight (i.e. yield moved higher), following the broader global move.

Yesterday's bond sell-off was mostly underpinned by a sharp repricing of cash rate expectations. There is now around a 50% chance of an RBA rate hike priced

Today's key data and events

Time	Event	Exp	Prev
8am	NZ Consumer Confidence Jun		84.9
9:50am	JN Retail Sales May	0.8%	0.8%
11am	AU Cons. Inflation Expectations Jun		4.1%
	NZ ANZ Bus. Confidence Jun		11.2
11:30am	AU Job Vacancies May q/q		-6.1%
	CH Industrial Profits May y/y		4.0%
6pm	EZ M3 Money Supply May y/y	1.5%	1.3%
7pm	EZ Cons. Confidence Jun Final		-14.0
	EZ Economic Confidence Jun	96.1	96.0
7:30pm	AU RBA's Hauser Speech		
10:30pm	US GDP Annualised Q1 Est. 3	1.4%	1.3%
	US Core PCE Q1 y/y Est. 3	3.6%	3.6%
	US Initial Jobless Claims w/e 22 Jun	235k	238k
	US Durable Goods Orders May Prel.	-0.4%	0.6%
12am	US Pending Homes Sales May	0.5%	-7.7%
1am	US Kansas City Fed Mfg Index Jun	-5	-2

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.

in for 2024 with around a 30% chance of a hike at the August meeting. At tuesday's close there was around a 30% chance of a cut factored in by year-end.

Foreign exchange:

The US dollar firmed against a basket of major currencies with the DXY closing above 106 for the first time since late April. The Japanese Yen continued to slip against the greenback, falling through levels previously triggereing intervention and drifting to its lowest level since the mid-to-late-80's. The offshore Yuan followed a similar fate, slipping to its lowest level agains the US dollar since November 2023.

The euro, the British Pound and the Swiss Franc all gave up ground against the US dollar, but held around the bottom of recent ranges.

Despite the spike in Aussie rates and a noticeable narrowing in the AU-US 2-year rate spread, the Aussie dollar failed to threaten a move higher. However, in the context of a broader slide against the US dollar, the Aussie outperformed. The AUD/USD rose from a low of 0.6636 to a high of 0.6689 on the domestic inflation data, before unwinding most of the gains overnight to finish little changed around 0.6550.

Commodities:

Commodity prices were broadly lower overnight. Gold (-0.9%) and copper (-0.3%) were both lower, iron ore bucked the trend rising 3.2%, while WTI oil futures were little changed at US$80.90 per barrel.

Australia:

The May monthly inflation indicator rose at an annual pace of 4.0%, up from 3.6% in April. The result met our expectations but was above the market median of 3.8%.

Garnering the most attention was the 'core' measure excluding volatile items and holiday travel. This measure edged down in May but remained stubbornly high at 4.0%. The closely watched services component rose in both annual and 3-month annualised terms to 4.8% and 5.1%, respectively.

Most important is the implications for the official June quarter inflation report. Recall that the monthly indicator only includes price updates for around 60% of the inflation basket and should be interpreted with caution.

Based on the detail in the inflation indicator, the risks to our June quarter inflation forecast are broadly balanced. We expect headline and trimmed-mean inflation to rise 1.0% and 0.9% in the quarter, respectively.

Eurozone:

Consumer confidence in Germany soured slightly in July, grinding to a halt a promising recovery in optimism building since March. The consumer confidence index slipped to -21.8, from -21.0, but remains comfortably above the levels of the last two years. Crucial to the outlook will be whether July's reading proves a bump in the road or a more sininster turn in the tajectory of sentiment.

United States:

New home sales fell sharply in May, down 11.3% in the month. Activity is still 19% above the low of mid-2022, but below the most recent peak of April 2024. Put in a broader context, new home sales are down around 26% copmared to the average of 2020 when migration away from major US cities drove a rapid increase in new home supply in suburban locations.

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