

28 June 2024

MORNING REPORT

Today's economic developments and market movements.

Key themes

There was little movement in US equities ahead of May's PCE inflation read to be released on overnight.

US Treasury bond yields were lower reflecting some soft economic data released overnight and positioning ahead of tonight's PCE read. The US dollar was also lower.

The decline in Australian yields overnight coincided with Deputy Governor Hauser stating that it would be a "bad mistake" to hike based on one monthly inflation data point. The chances of a rate hike in August pulled back and the Aussie lost most of the gains made earlier in the session, to finished virtually unchanged.

The prices of key commodities were mixed, with oil and gold higher and iron ore lower.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	63.8	-0.2%
AUD/USD	0.6648	0.0%
AUD/JPY	106.86	0.0%
AUD/GBP	0.5259	-0.2%
AUD/NZD	1.0929	0.0%
AUD/EUR	0.6209	-0.2%
AUD/CNH	4.8554	0.0%
AUD/SGD	0.9026	0.0%
AUD/HKD	5.1915	0.0%
AUD/CAD	0.9105	0.0%
EUR/USD	1.0705	0.2%
USD/JPY	160.74	0.0%
USD Index	105.92	-0.1%

Equities	Close	Change
S&P/ASX 200	7,760	-0.3%
S&P 500	5,483	0.1%
Japan Nikkei	39,342	-0.8%
Hang Seng	17,716	-2.1%
Euro Stoxx 50	4,903	-0.3%
UK FTSE100	8,180	-0.6%
VIX Index	12.24	-2.5%

Commodities	Current	Change
CRB Index	291.30	0.0%
Gold	2327.73	1.3%
Copper	9441.31	-0.3%
Oil (WTI futures)	81.74	1.0%
Coal (thermal)	249.00	0.0%
Coal (coking)	132.60	-0.3%
Iron Ore	105.20	-0.9%
ACCU	34.50	0.4%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.35	0.01
90 day BBSY	4.51	0.06
180 day BBSY	4.82	0.10
1 year swap	4.48	-0.04
2 year swap	4.34	-0.05
3 year swap	4.24	-0.06
4 year swap	4.20	-0.06
5 year swap	4.20	-0.05
6 year swap	4.23	-0.05
7 year swap	4.27	-0.04
8 year swap	4.31	-0.04
9 year swap	4.35	-0.04
10 year swap	4.52	-0.05

Government Bond Yields	Close	Change
Australia		
3 year bond	4.17	0.07
10 year bond	4.41	0.10
United States		
3-month T Bill	5.23	-0.01
2 year bond	4.71	-0.04
10 year bond	4.29	-0.04
Other (10 year yields)		
Germany	2.45	0.00
Japan	1.08	0.05
UK	4.13	0.00

Sydney Futures Exchange	Current	Change
10 yr bond	4.36	-0.06
3 yr bond	4.08	-0.06
3 mth bill rate	4.50	-0.04
SPI 200	7,775	0.3%

Data as at 8:00am 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:

There was little movement in US equities ahead of May's PCE inflation read to be released on overnight.

The S&P 500 Index closed 0.1% higher after flipping between small gains and losses. The tech-heavy Nasdaq ended the day up 0.3% higher, while the Dow Jones Industrial Average eked out a 0.1% gain.

The ASX200 closed 0.3% lower, marking the second consecutive day of losses. The Index drop by as much as 1.7% before making a partial recovery, as concerns linger over the hotter than expected monthly inflation gauge. Seven of eleven sectors were lower, led by financials. Futures are pointing to positive open this morning.

Interest rates:

US bond yields were lower across the curve.

The 2-year bond yield declined 4 basis points to 4.71%. The 10-year treasury yield also declined 4 basis points to 4.29%.

Interest-rate markets are pricing in just under two 25 basis points rate cuts this year (or 45 basis points of cuts), one in November and the other in December.

Australian yields also declined overnight, coinciding with Deputy Governor Hauser's Q&A session where he said it would be a "bad mistake" to hike after one data point, playing down the significance of this week's monthly inflation gauge. The 3-year government bond yield (futures) declined 6 basis points to 4.08%, while the 10-year government bond yield (futures) also declined 6 basis points to 4.36%.

There is now around a 50% chance of an RBA rate hike priced in for 2024. There is around a 25% chance of a hike at the August meeting – down from a 30% chance yesterday.

Foreign exchange:

The US dollar was slightly lower on the back of the lower yields, falling to a low of around 105.71 before settling at 105.91.

The Aussie was virtually unchanged with the AUD/USD pair sliding from a high of 0.6673 to a low of 0.6640 following the Deputy Governor's Q&A session. The pair retraced some of the fall before settling at around 0.6648.

Today's key data and events

Time	Event	Exp	Prev
11:30am	AU Private Sector Credit May	0.5%	0.4%
9:50am	JN Jobless Rate May	2.6%	2.6%
10:30pm	US Personal income May	0.4%	0.3%
10:30pm	US PCE deflator May	0.0%	0.3%
11:30pm	US Chicago Mfg PMI Jun	40.0	35.4
12:00am	CH NBS PMIs Jun		

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.

The Japanese currency slumped to 160.82 per US dollar, the lowest level since 1986, blowing past where officials intervened in the market in April. The depreciation is raising the price of imports, hurting Japanese consumers and causing growing unease among businesses.

Commodities:

Commodities were mixed, with oil and gold higher, while coal and iron ore were lower.

This WTI futures was higher overnight and is currently trading at around US\$81.743 per barrel.

Australia:

Incoming RBA Deputy Governor, Andrew Hauser, spoke last night about the strengths which underpin Australia's economic prosperity, including a diverse range of resource endowments, pro-growth institutions (including robust macro frameworks and resilient political institutions) and a welcoming environment for foreign investment. In the Q&A session, Deputy Governor Hauser said that it would be a "bad mistake" to hike based on one data point (referring to the May monthly CPI indicator released earlier in the week) and that there will be more data released in the lead up to the RBA Board's August meeting, which will help provide a more comprehensive view of inflationary pressures. He noted that services inflation did fall in the May release and that some of the stickiness could relate to administrative prices, which is completely consistent with our view.

Job vacancies continue to moderate into mid-year, falling -2.7% between February and May, from 362.4k to 352.6k, consistent with an ongoing easing in labour market conditions. This marks the eighth consecutive decline in job vacancies from its peak of 476.8k in May 2022. Job vacancies are now 26% lower than the May 2022 peak, or from another perspective, still around 55% above pre-pandemic levels.

Consumer inflation expectations increased to 4.4% in June from May's two and a half year low of 4.1%, reflecting elevated cost pressure with inflation remaining outside the central bank's target. This is also consistent with the stronger than expected monthly inflation gauge which printed at 4.0%yr in May, higher than the 3.8%yr

the market was expecting, but in line with Westpac Economics' expectation of 4.0%yr.

New Zealand:

The Business Outlook Index declined to 6.1 points in June from the 11.2 points recorded in May. This was the fifth straight month of decline and the lowest read since late 2023.

Consumer Confidence declined to 83 points in June from 84.9 points in May and remains significantly below the 20-year average of 114 points. The outcome aligns with broader conditions where households are cutting back on spending due to the squeeze on incomes.

China:

Industrial profits rose 0.7%yr in May, a step down from the 4.0%yr recorded in April. Year to date gains also pulled back from 4.3% over the year to April, to 3.4% over the year to May. The outcome shows that the softer than expected recovery in demand and declining output prices are weighing on margins and profitability.

Eurozone:

The economic sentiment indicator declined to 95.9 points in June from an upwardly revised 96.1 points (96.0 initial estimate) in May. This was below the 96.2 points the market was expecting. There was a worsening among companies in the services sector, industrials and retailers. Consumers were the one bright spot and were less pessimistic.

United States:

Initial jobless claims over the week to 22 June were essentially unchanged from the previous week at 233k. Continuing claims are running at 1838k, higher than the 1828k expected by the market and the highest level since the end of 2021, suggesting that it's taking longer for unemployed people to find a job.

The third estimate of economic growth over the March quarter edged higher, from 1.3% annualised to 1.4%. Revisions to the detail pointed to softer private demand and inflation prospects. Upward revisions to growth in business investment (from 6.0% annualised to 7.0%), government spending (from 1.3% annualised to 1.8%) and the contribution from net exports (from -0.89ppts to -0.65ppts) were offset by weaker momentum in consumption (growth marked down from 2.0% to 1.5% annualised). Below-trend momentum for the consumer has also been seen at the start of June quarter, justifying a belief that demand pressures for inflationary pressures are dissipating.

Durable goods orders held up better than expected in May, rising 0.1%. However, the 0.4% downward revision to April offset the upside surprise in May. Core durable

orders (ex-transport and defence) were weak in May at -0.6% and April's small gain was little changed at 0.3%, suggesting a deceleration in business equipment investment in the June quarter.

Also out overnight, wholesale and retail inventories both beat expectations, rising 0.6% and 0.7% in May; these outcomes are, at least in part, likely the result of softer demand.

The Kansas City Fed manufacturing index remained weak at -8, and pending home sales fell 2.1% in May to be 6.6% lower over the year.



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