



1 July 2024

MORNING REPORT

Today's economic developments and market movements.

Key themes

Tepid US economic data provided markets with some reassurance on Friday.

However, the encouraging data was allayed by the political backdrop, with Donald Trump and President Biden facing off in the Presidential Debate and the first round of the French elections kicking off over the weekend.

A fresh reminder of the political uncertainties further complicating the economic backdrop.

US equities finished lower on Friday and over the week. US treasury yields were higher across the curve, led by longer-dated maturities, while the US dollar was little changed.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	63.3	-0.8%
AUD/USD	0.6677	0.3%
AUD/JPY	107.38	0.4%
AUD/GBP	0.5279	0.3%
AUD/NZD	1.0955	0.2%
AUD/EUR	0.6219	0.3%
AUD/CNH	4.871	0.3%
AUD/SGD	0.905	0.2%
AUD/HKD	5.2141	0.3%
AUD/CAD	0.9128	0.2%
EUR/USD	1.0735	0.1%
USD/JPY	160.83	0.1%
USD Index	105.73	0.0%

Equities	Close	Change
S&P/ASX 200	7,767	0.1%
S&P 500	5,460	-0.4%
Japan Nikkei	39,583	0.6%
Hang Seng	17,719	0.0%
Euro Stoxx 50	4,894	-0.2%
UK FTSE100	8,164	-0.2%
VIX Index	12.44	1.6%

Commodities	Current	Change
CRB Index	290.47	-0.3%
Gold	2324.73	0.0%
Copper	9489.46	0.9%
Oil (WTI futures)	81.66	-0.2%
Coal (thermal)	233.00	-0.9%
Coal (coking)	133.20	0.5%
Iron Ore	106.85	1.0%
ACCU	34.50	0.0%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.35	0.00
90 day BBSY	4.50	-0.01
180 day BBSY	4.79	-0.03
1 year swap	4.50	0.01
2 year swap	4.37	0.02
3 year swap	4.29	0.03
4 year swap	4.23	-0.06
5 year swap	4.23	-0.05
6 year swap	4.26	-0.05
7 year swap	4.30	-0.04
8 year swap	4.35	-0.04
9 year swap	4.39	-0.04
10 year swap	4.57	0.04

Government Bond Yields	Close	Change
Australia		
3 year bond	4.08	-0.09
10 year bond	4.31	-0.10
United States		
3-month T Bill	5.22	-0.01
2 year bond	4.75	0.04
10 year bond	4.40	0.11
Other (10 year yields)		
Germany	2.50	0.05
Japan	1.06	-0.02
UK	4.17	0.04

Sydney Futures Exchange	Current	Change
10 yr bond	4.41	0.09
3 yr bond	4.13	0.08
3 mth bill rate	4.52	0.02
SPI 200	7,737	-0.5%

Data as at 8:15m 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 finished in the red on Friday, the S&P dropped 0.4%, while the NASDAQ was 0.7% lower. Both the S&P and the NASDAQ closed the week lower than were they started, the first weekly slide in four weeks.

The ASX 200 rose 0.1% on Friday but was 0.4% lower over the week. Futures are trading lower, pointing to a weak open this morning.

Interest rates:

US treasury yields were higher across the curve, led by longer maturities. The 2-year yield rose 4 basis point to 4.75%, while the 10-year yield jumped 11 basis points to 4.40%.

Interest rate markets are pricing in around a 60% chance of a second Fed rate cut in 2024. The first cut isn't fully priced in until December.

Aussie bond futures followed the lead from US markets, consolidating last week's sell-off. The 3-year (futures) yield was 8 basis points higher at 4.13%, while the 10-year (futures) yield was up 9 basis points to 4.41%.

There is around a 1 in 4 chance of an August rate hike from the RBA factored into futures and swap markets. Market pricing implies it's more likely we see a hike than a rate cut from the RBA by the end of 2024.

Foreign exchange:

The US dollar was little changed on Friday, restraining moves in major crosses as FX moves remain largely dictated by the US dollar leg. The DXY ranged between a low of 105.75 and a high of 106.13 on Friday but is trading lower this morning around 105.74.

The Aussie, the euro and the Pound all remain comfortably within recent trading ranges. The Aussie and the euro are hovering around the top-end of their recent ranges, while the Pound has been grinding lower over recent weeks.

The Japanese Yen continues to languish against the US dollar, however sellers took somewhat of a breather of Friday - perhaps a sign of caution given the risk of intervention.

Commodities:

Commodity prices were mixed on Friday. Copper (0.9%) and iron ore (1.0%) firmed, while gold was flat the WTI oil futures slipped (-0.2%).

Today's key data and events

Time	Event	Exp	Prev
11:30am	AU ANZ-Indeed Job Ads Jun		-2.1%
11:45am	CH Caixin Mfg PMI Jun	51.1	51.7
4pm	UK Nationwide House Prices Jun	-0.1%	0.4%
10pm	EZ Ger. CPI Jun Prel.	0.2%	0.1%
12am	ISM Mfg PMI Jun	49.1	48.7

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.

Australia:

Private sector credit continued to expand at a moderate pace in May, rising 0.4% in the month. This was down on 0.5% in April but in line with the underlying tempo of credit growth established over the last 18 months. In annual terms credit expanded 5.2%, composed of a 6.6% annual lift in business credit and a 4.6% rise in housing credit. Business credit growth stepped down a gear to a monthly rate of 0.4%. This compares to average monthly growth of 0.6% over the first four months of the year.

China:

The official manufacturing purchasing managers' index (PMI) was unchanged at 49.5 in June. The services sector index was down 0.6ppts at 50.5. For manufacturing, output, new orders and employment remained around their May levels in June. But input and output prices fell, signalling spare capacity across the sector. New orders and employment were also little changed for the service sector, so too input and output prices.

Eurozone:

Exit polls have Marine Le Pen's far-right National Rally winning the first round of France's parliamentary election. The National Rally is projected to win around 34% of the votes, followed by the left-wing New Popular Front (29%) and President Emmanuel Macron's Together Alliance (20%).

United Kingdom:

March quarter GDP growth was finalised slightly higher at 0.7% in the quarter and 0.3% through the year. The upward revision centred on stronger household consumption, while business investment and government spending were marked down.

United States:

The personal consumption expenditure (PCE) deflator, the Fed's preferred inflation measure, came in as expected in May. The PCE deflator was flat in the month, while the core PCE deflator rose 0.1%. In annual terms, both the headline and core PCE measures printed at 2.6%.

Personal income was slightly higher than expected in May, while personal spending underwhelmed marginally rising 0.5% and 0.2%



in the month, respectively. Adjusting for inflation, real personal spending rose 0.3% in May.

University of Michigan consumer sentiment improved in the final reading for June, though at 68.2 it is still below May's reading and the 5-year average. Current conditions and expectations both improved in June's final reading. 1-year and 5-year inflation expectations also decelerated. The 1-year measure is now below its decade average, the 5-year view just 0.3ppts above average.

The MNI Chicago PMI jumped from a deeply negative 35.4 in May to a still contractionary 47.4 in June.



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