



2 July 2024

MORNING REPORT

Today's economic developments and market movements.

Key themes

US manufacturing data declined for the third consecutive month. The ISM manufacturing prices paid sub index also fell. This left shorter-dated bond yields little changed in the US. However, longer-dated US bond yields rose solidly due to rising investor concerns about US debt levels after the recent US election debate.

US share markets rose across the board, led by tech shares, and the US dollar also appreciated against the major currencies.

Locally, interest-rate markets continue to price in some chance of a rate hike from the Reserve Bank in August and the AUD/USD remains in a trading range as Australian-US interest-rate spreads continue to dominate direction.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	63.7	0.6%
AUD/USD	0.6654	-0.1%
AUD/JPY	107.41	0.2%
AUD/GBP	0.5262	-0.2%
AUD/NZD	1.0968	0.1%
AUD/EUR	0.6197	-0.4%
AUD/CNH	4.8607	-0.1%
AUD/SGD	0.9035	0.0%
AUD/HKD	5.1981	-0.1%
AUD/CAD	0.9141	0.3%
EUR/USD	1.0737	0.3%
USD/JPY	161.43	0.4%
USD Index	105.90	0.0%

Equities	Close	Change
S&P/ASX 200	7,751	-0.2%
S&P 500	5,475	0.3%
Japan Nikkei	39,631	0.1%
Hang Seng	17,719	0.0%
Euro Stoxx 50	4,930	0.7%
UK FTSE100	8,167	0.0%
VIX Index	12.22	-1.8%

Commodities	Current	Change
CRB Index	291.57	0.4%
Gold	2332.23	0.2%
Copper	9511.29	0.2%
Oil (WTI futures)	83.40	2.3%
Coal (thermal)	254.00	9.0%
Coal (coking)	135.65	0.6%
Iron Ore	109.70	3.2%
ACCU	33.50	-2.9%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.35	0.00
90 day BBSY	4.50	0.00
180 day BBSY	4.79	0.00
1 year swap	4.50	0.02
2 year swap	4.38	0.03
3 year swap	4.29	0.05
4 year swap	4.26	0.06
5 year swap	4.27	0.07
6 year swap	4.30	0.07
7 year swap	4.35	0.07
8 year swap	4.40	0.07
9 year swap	4.44	0.08
10 year swap	4.61	0.08

Government Bond Yields	Close	Change
Australia		
3 year bond	4.17	0.05
10 year bond	4.43	0.07
United States		
3-month T Bill	5.20	0.02
2 year bond	4.76	0.00
10 year bond	4.46	0.07
Other (10 year yields)		
Germany	2.61	0.11
Japan	1.06	0.00
UK	4.28	0.11

Sydney Futures Exchange	Current	Change
10 yr bond	4.46	0.06
3 yr bond	4.16	0.06
3 mth bill rate	4.52	0.02
SPI 200	7,720	-0.3%

Data as at 9:00am AEDT. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.



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Share markets:

US share markets moved higher with tech shares outperforming. The Dow rose 0.1%, the S&P 500 lifted 0.3% and the Nasdaq increased 0.8%.

Interest rates:

The US 2-year treasury yield finished the trading session unchanged at 4.76% but during the session had traded a few basis points higher. Meanwhile, the US 10-year bond yield rose 7 basis points to 4.46%, as concerns about debt levels contributed to a sell off in longer-dated bond prices. Interest-rate markets are expected the fed funds rate to remain unchanged at the Federal Reserve meeting on July 31 and are attaching a 65% chance of a rate cut at their September meeting.

The Australian 3-year government futures yield rose from 4.09% to 4.17% and the 10-year yield lifted from 4.38% to 4.48%. Interest-rate markets are attaching a 45% probability to the possibility of a rate hike on August 6. The quarterly inflation report on July 31 will be critical. In an AFR survey published yesterday, the poll of 37 economists revealed 4 expect a rate hike this year, 8 a rate cut and the rest for the cash rate to stay on hold.

Foreign exchange:

The US dollar index was firmer overnight, but there was volatility in a narrow range. Notably, USD/JPY rose from a low of 161.00 to 161.73 - the highest since 1986. AUD/JPY was as high as 107.82 overnight, but is now trading around 107.50.

The AUD/USD slipped marginally from an overnight high of 0.6687 to an overnight low of 0.6656 against the backdrop of strengthening demand for the greenback.

Commodities:

The West Texas Intermediate price of crude oil rose to the highest since April. Gold, copper and iron ore also advanced.

Australia:

The CoreLogic home value index rose 0.7% in June, matching May's pace and the average monthly pace of the last twelve months. Annual growth ticked down to 8.3% in June, from 9.0% in May, continuing a broader softening in annual price growth.

Perth maintained the top spot on the podium with prices rising 2.0% in June, followed by Adelaide (1.7%) and Brisbane (1.2%). Annual growth in prices in Perth (23.6%) is running at its hottest pace since February 2007. In Adelaide (15.4%) and Brisbane (15.8%) annual

Today's key data and events

Time	Event	Exp	Prev
8:45am	NZ Building Permits May		-1.9%
11:30am	AU RBA Meeting Minutes		
7pm	EZ CPI Jun Prel.	0.2%	0.2%
	EZ Unemployment Rate May	6.4%	6.4%
12am	US JOLTS Job Openings May	8.0m	8.1m

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.

price growth is reminiscent of, but not equivalent to, the run-up in prices from the post-pandemic reopening.

China:

The Caixin purchasing managers' index for manufacturing rose from 51.7 in May to 51.8 in June against consensus expectations of 51.5. The expansion in this index suggests exports growth may help provide some support to China's economy.

Eurozone:

The European Central Bank (ECB) President Christine Lagarde overnight suggested that the central bank doesn't yet have sufficient evidence that inflation threats have passed, suggesting rates may stay on hold this month.

Japan:

Sentiment at large manufacturers rose to 13 in Q2, from 11 in Q1. This result was above the consensus forecast for 11. Inflation-related measures show more corporates are planning to raise prices and see consumer-price gains staying above the 2%.

United Kingdom:

Nationwide house prices rose 0.2% in June, from 0.4% growth in May and against a decline of 0.1% in April.

United States:

Factory activity contracted slightly for a third straight month in June. The ISM manufacturing index fell to 48.5 in June, from 48.7 in May. The consensus forecast was for a firmer result of 49.1. The prices paid sub index fell 4.9 points to 52.1, the most since May 2023, while the new orders gauge ticked up.

The US Supreme Court ruled Donald Trump has some immunity from criminal charges for trying to reverse the 2020 election results, handing the ex-president a significant legal and political victory and all but ensuring that his obstruction trial will not happen before the November US election.



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