3 July 2024

MORNING REPORT

Today's economic developments and market movements.

Key themes

US equities rallied following positive comments from Fed Chair Powell, who noted that the recent run of data was consistent with the economy being back on the "disinflationary path".

These comments were consistent with the view that the Fed will deliver its first cut of the cycle in the coming months.

US bond yields were lower, while the US dollar also lost ground.

The Aussie was higher following the release of the minutes from the RBA Board's June meeting, which left the door open for a rate hike.

The prices of key commodities were generally lower, with oil and gold both lower.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	63.6	-0.2%
AUD/USD	0.6666	0.1%
AUD/JPY	107.62	0.1%
AUD/GBP	0.5255	-0.2%
AUD/NZD	1.097	0.1%
AUD/EUR	0.6204	0.1%
AUD/CNH	4.8712	0.1%
AUD/SGD	0.9042	0.0%
AUD/HKD	5.2091	0.1%
AUD/CAD	0.9118	-0.3%
EUR/USD	1.0746	0.0%
USD/JPY	161.45	0.0%
USD Index	105.70	-0.2%

Equities	Close	Change
S&P/ASX 200	7,718	-0.4%
S&P 500	5,509	0.6%
Japan Nikkei	40,075	1.1%
Hang Seng	17,769	0.3%
Euro Stoxx 50	4,906	-0.5%
UK FTSE100	8,121	-0.6%
VIX Index	12.03	-1.6%

Commodities	Current	Change
CRB Index	292.35	0.3%
Gold	2329.46	-0.1%
Copper	9511.29	0.2%
Oil (WTI futures)	82.81	-0.7%
Coal (thermal)	261.00	2.8%
Coal (coking)	136.75	0.4%
Iron Ore	109.15	0.3%
ACCU	33.50	0.0%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.35	0.00
90 day BBSY	4.50	0.00
180 day BBSY	4.81	0.02
1 year swap	4.49	-0.02
2 year swap	4.36	-0.03
3 year swap	4.27	-0.05
4 year swap	4.24	-0.04
5 year swap	4.26	-0.04
6 year swap	4.30	-0.03
7 year swap	4.34	-0.03
8 year swap	4.39	-0.03
9 year swap	4.44	-0.03
10 year swap	4.58	-0.05

Government Bond Yields	Close	Change
Australia		
3 year bond	4.14	0.01
10 year bond	4.41	0.03
United States		
3-month T Bill	5.21	0.00
2 year bond	4.74	-0.01
10 year bond	4.43	-0.03
Other (10 year yields)		
Germany	2.60	0.00
Japan	1.09	0.03
UK	4.25	-0.03

Sydney Futures Exchange	Current	Change
10 yr bond	4.41	-0.01
3 yr bond	4.11	0.00
3 mth bill rate	4.52	0.01
SPI 200	7,722	0.2%

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:

After a sluggish start to the session, US equities rallied following positive comments from Fed Chair Powell and Chicago Fed President Goolsbee.

These comments were consistent with the view that the Fed will deliver its first cut of the cycle in the coming months. As such, the rally was led by interest rate sensitive sectors, most notably consumer discretionary stocks.

The S&P 500 and the Nasdaq closed at fresh record highs. The S&P 500 Index gained 0.6% to close at to 5,509 points. The tech-rich Nasdaq rose 0.8% to 18,028.8 points. The Dow Jones advanced 0.4% to 39,331.9 points.

The ASX200 closed 0.4% lower, marking the second consecutive day of losses. Seven of eleven sectors were lower, led by materials stocks. Futures are pointing to positive open this morning.

Interest rates:

US bond yields were lower across the curve.

The 2-year bond yield declined 2 basis points to 4.74%. The 10-year treasury yield declined 3 basis points to 4.43%.

Interest-rate markets are pricing in just under two 25 basis points rate cuts this year (or 46 basis points of cuts), one in November and the other in December.

Australian yields were little changed. The 3-year government bond yield (futures) remained at 4.11%, while the 10-year government bond yield (futures) ticked lower by 1 basis point to 4.11%.

There is now around a 50% chance of an RBA rate hike priced in for 2024 with around a 25% chance of a hike at the August meeting. Markets have pushed out the first full rate cut to August next year.

Foreign exchange:

The US dollar was slightly lower, increasing to a session high of around 106.05 before losing ground and settling at 105.69. The fall in the US dollar followed comments from Fed officials and was consistent with the lower yields, particularly at the long end of the curve.

The Aussie appreciated against the US dollar, sliding below 0.6635 before increasing and settling at around 0.6666.

Today's key data and events

Time	Event	Exp	Prev
11:30am	AU Dwelling approvals May	1.5%	-0.3%
11:30am	AU Retail trade May	0.3%	0.1%
11:45am	CH Caixin services PMI Jun		54.0
7:00pm	EU PPI May y/y		-5.7%
10:30pm	US Trade balance May exp	-$72.2bn	-74.6bn
12:00pm	US Factory orders May	0.4%	0.3%
12:00am	US Durable goods orders May		0.1%
12.00am	US ISM non-mfg Jun	52.0	53.8
4:00am	US FOMC meeting minutes		

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.

Commodities:

Commodities were generally lower, with gold, iron ore and oil all lower. Coal and copper were higher.

This WTI futures was slightly down overnight and is currently trading at around US$82.81 per barrel.

Australia:

The minutes for the RBA Board's June 2024 meeting noted that the Board remains vigilant to upside risks to inflation and the Board's next move will be dictated by the incoming data, most notably the Q2 inflation print.

The minutes also highlighted that levels matter in the RBA's view of the economy, as well as growth rates. The Board's deliberations are increasingly being framed as assessments of these gaps. This is not a complete departure from past approaches, but as the apparent gaps narrow, the evidence base for these estimates will face intensified scrutiny. Deciding when the gaps have closed will be a judgement call.

One point to watch in future RBA communication is how the central bank reconciles its view that the labour market is still tighter than the full employment level, with its view – which we share – that wages growth has peaked. Meanwhile, near-term fluctuations and surprises in goods and services inflation are the main focus. While upside risks remain, so far, actual outcomes are still broadly tracking on a path consistent with returning inflation to target in 2026.

The RBA is not in situation of needing to lean against strong private sector demand that is driving inflation higher. Rather, we see weak demand and declining inflation. The policy decision therefore rests on views on whether demand is weak enough to bring inflation down fast enough, given the factors working in the wrong direction. The awkwardness of possibly needing to lean against supply disruptions points to the need for other arms of policy to repair the supply side.

Eurozone:

Inflation eased to 2.5%yr in June after briefly accelerating to 2.6%yr in May. This was in line with market expectations. Core inflation was a touch stronger than the 2.8%yr the market was expecting, coming in at 2.9%yr. Services inflation remained around 4%yr, a rate held since the start of this year. Overall, this flash release indicates inflation pressures are continuing to abate in Europe, though there remains a degree of persistence that will only slowly fade.

The unemployment rate remained at a historically low level of 6.4% in May. This was unchanged from April and in line with market expectations.

United States:

At the ECB's Sintra central banking conference, ECB President Lagarde, FOMC Chair Powell and Brazil's President Campos Neto shared the stage for the keynote monetary policy panel. Lagarde and Powell's remarks were both constructive on inflation and the health of their respective economies. Powell in particular noted that the US is back on a "disinflationary path", but that further confidence is necessary amongst Committee members before acting. He said "because the US economy is strong and the labour market is strong, we have the ability to take our time and get this right". Powell also made clear that the risks the US faces are increasingly balanced, with downside risks to the labour market coming into view.

Chair Powell's remarks speak to a first cut in coming months and to continued modest easing thereafter, consistent with our view and in line with the ECB.

Also speaking overnight, Chicago Fed President Goolsbee said "we are on a path to 2%. if you just hold the rates where they are while inflation comes down, you are tightening — so you should do that by decision, not by default."

The June JOLTS survey provided further evidence of labour demand and supply coming into balance. The job opening count was a touch higher than the market expected at 8.14mil, but the job opening rate was little changed from May and within 0.5% of the pre-pandemic level. The hiring, separation and quit rates were also all near their pre-pandemic averages.

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