9 October 2024

MORNING REPORT

Today's economic developments and market movements.

Key themes

China's National Development and Reform Commission (NDRC) failed to live up to expectations, announcing no material increase in spending but instead reaffirming the commitment to the 5% growth target.

The lack of fiscal support prompted a sharp reversal in commodity markets with crude and iron ore prices off materially.

Overnight, markets largely consolidated recent sharp moves. The exception being US equities, where a rally in mega-cap tech stock bouyed the broader index.

The US yield curve was marginally lower and steeper but noticeably higher and flatter than before the payrolls data.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	62.2	-1.0%
AUD/USD	0.6747	-0.2%
AUD/JPY	99.98	-0.1%
AUD/GBP	0.5152	-0.3%
AUD/NZD	1.0984	-0.4%
AUD/EUR	0.6148	-0.2%
AUD/CNH	4.7717	-0.1%
AUD/SGD	0.8798	-0.2%
AUD/HKD	5.2459	0.0%
AUD/CAD	0.9208	0.0%
EUR/USD	1.0976	0.0%
USD/JPY	148.20	0.0%
USD Index	102.46	-0.1%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.35	0.00
90 day BBSY	4.47	0.01
180 day BBSY	4.68	0.02
1 year swap	4.13	-0.03
2 year swap	3.87	-0.05
3 year swap	3.79	-0.07
4 year swap	3.79	-0.06
5 year swap	3.83	-0.04
6 year swap	3.90	-0.03
7 year swap	3.97	-0.03
8 year swap	4.03	-0.04
9 year swap	4.09	-0.03
10 year swap	4.27	-0.03

Equities	Close	Change
S&P/ASX 200	8,177	-0.3%
S&P 500	5,751	1.0%
Japan Nikkei	38,938	-1.0%
Hang Seng	20,927	-9.4%
Euro Stoxx 50	4,949	-0.4%
UK FTSE100	8,191	-1.4%
VIX Index	21.42	-5.4%

Government Bond Yields	Close	Change
Australia		
3 year bond	3.73	0.12
10 year bond	4.17	0.09
United States		
3-month T Bill	4.51	0.00
2 year bond	3.96	-0.04
10 year bond	4.01	-0.01
Other (10 year yields)		
Germany	2.24	-0.01
Japan	0.93	-0.01
UK	4.18	-0.02

Commodities	Current	Change
CRB Index	287.28	-2.1%
Gold	2621.83	-0.8%
Copper	9604.39	-1.9%
Oil (WTI futures)	73.92	-4.2%
Coal (coking)	223.00	-3.9%
Coal (thermal)	153.60	-1.3%
Iron Ore	104.35	-5.2%
ACCU	35.63	-1.7%

Sydney Futures Exchange	Current	Change
10 yr bond	4.19	0.02
3 yr bond	3.71	0.02
3 mth bill rate	4.30	0.02
SPI 200	8,236	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:

US equities rose on a rally in mega-tech stocks, reversing Monday night's slide to finish just shy of record highs. The S&P 500 rose 1.0%, while the NASDAQ and the Dow Jones gained 1.5% and 0.3%, respectively.

The mood was a little more sombre across the Atlantic with the Euro Stoxx 50 down 0.4% and the FTSE 100 closing down 1.4% in London.

The ASX 200 slipped 0.3% yesterday against the backdrop of a pretty soggy session in Asia. Futures were up 0.2% overnight.

The Hang Seng sank 9.4% in Hong Kong as Chinese officials underwhelmed on stimulus announcements. The CSI 300 was up 5.9% in Shanghai as it reopened from the Golden Week holidays but was up as much as 10.8% on the open, before the National Development and Reform Commission announcement.

Interest rates:

US treasury yields were marginally lower across the curve, which bull steepened in the 2-10-year segment. At 3.96% and 4.01%, the respective 2-and-10-year yields are still well above where they traded before last week's non-farm payrolls data.

Swaps are pricing in around an 81% chance the Fed cuts by 25 basis points in November and have around 45 basis points of cuts priced in by the end of the year.

Yields were 1-3 basis points lower across the curve in major European markets. Ther is around a 95% chance of a rate cut from the European Central Bank (ECB) priced in for next week's meeting.

Aussie bond futures yields were 2-basis points higher in the 3-and-10-year tenors at 3.71% and 4.19%, respectively. This was after physical yields jumped significantly yesterday on reopening from the long weekend.

The implied odds of an RBA rate cut this year have been trimmed to around 45%.

Foreign exchange:

The US dollar broadly drifted sideways, consolidating its recent move higher. The DXY traded between 102.29 and 102.64 and was sitting around 102.46 at the time of writing. US inflation data this week and upcoming corporate earnings will be key to sustaining the US dollar rebound and will need to reinforce the US exceptionalism narrative.

The Aussie dollar remained under pressure with underwhelming policy announments out of China doing little to help its cause. The AUD/USD dropped from 0.6769 to 0.6715 but is eyeing solid support around the 0.6680-0.6700 region. That said, near-term upside looks limited with plenty of good news already baked into the commodity complex, an erosion of its yield appeal following the post-payrolls recalibration in US rates and soggy domestic activity.

The euro continued to tread water around the 1.0950-1.1000 area for a third straight session with near-term price action to be dictated by the ebbs and flows of interest rate pricing ahead of next week's ECB meeting and of course the US dollar. While weak economic activity supports pricing for a 95% chance of cut, persistant services inflation and a resilient labour market provide reason for caution. All-in-all the euro will likely be on the back-foot near term unless the ECB surprises.

The sell-off in the Japanese Yen stalled over the last two sessions with the USD/JPY trading between 149.13 and 147.35. A patient and measured withdrawal of ultra-easy policy settings from the Bank of Japan (BoJ) leaves the Yen vulnerable to further sell-offs should the US exceptionalism story gain further traction.

Today's key data and events

Time	Event	Exp	Prev
11am	AU RBA Assist. Gov. Kent Speech		
12pm	NZ RBNZ Official Cash Rate	4.75%	5.25%
5am	US Fed 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 lower across the board yesterday as prices retraced on what was clearly over-hyped expectations for Chinese policy stimulus.

West Texas Intermediate (WTI) crude futures sank 4.2% to US$73.92 per barrel but risks remain skewed to the upside given the geopolitical backdrop.

The US expects oil production to grow by just 320,000 barrels a day next year, much slower than previously estimated, according to the Energy Information Administration. US crude inventories increased by about 11 million barrels last week, the American Petroleum Institute reported.

Iron ore pulled back as Chinese Authorities failed to announce significant fiscal spending. Futures in Singapore tanked 5.2% to US$104.35 but are still well-off September's lows below US$90.

Australia:

The minutes from the RBA's October policy meeting provided little by way of additional information, merely reinforcing the messaging delivered by Governor Bullock during the post-meeting press conference.

The RBA still sees inflation as too high, the labour market running above full-employment and supply

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capacity as a constraint on growth. However, not enough had changed since the previous meeting to warrant any adjustment in policy settings.

Deputy Governor Andrew Hauser provided some remarks yesterday with little consequence for markets or monetary policy. However, during the Q&A Hauser did push back against the inference that the October meeting minutes were incrementally more dovish.

The Westpac-Melbourne Institute consumer sentiment index rose 6.2% to 89.8 in October, a two and a half year high. Expectations for interest rates fell sharply while cost-of-living pressures continue to moderate, but progress remains slow.

The business conditions index rose 3pts to +7 in September. Business conditions have been bouncing around an average level of +7 so far this year. This recent 'stabilisation' in business conditions provides some early signals that broader economic activity is currently bottoming out. Business confidence also rose 3pts to –2 index points but remains below the 'neutral' level of zero and well below the long-run average of +5.

The survey continues to report an easing in input cost pressures. The labour costs index is currently tracking a quarterly equivalent pace of 1.7% (down from 1.8% in August) while the purchase costs index is running at 1.2% (down from 1.6% in August). The pass-through of these costs to consumer prices remain limited, with final product prices tracking a pace of just 0.5% (down from 0.7% in August).

China:

The National Development and Reform Commission (NDRC) failed to live up to expectations, announcing no material increase in spending. The committee reaffirmed the commitment to achieving the 5% growth target and announced a plan to bring forward 200bn yuan worth of investments originally planned for next year.

It also suggested that the government will provide local authorities more powers to control their resources and provide more support for low-income households. However, the announcements lacked sufficient detail about policy implementation, and, most importantly, contained no new promises of a material increase in fiscal spending which is required to lift China's growth trajectory.

United States:

Boston Fed President, Susan Collins, noted that rate cuts should be careful and data-based. Raphael Bostic, the Atlanta Fed boss, said while risks to inflation have come down, threats to the labor market have risen, though the economy is still strong. Governor Adriana Kugler said officials should keep the focus on bringing inflation to target, with a "balanced approach" that avoids a slowdown in jobs.

The US trade deficit was $70.4bn in August. This was down from $78.9bn in July and the narrowest deficit in five months. Taken together, the July-August numbers are consistent with broadly neutral net trade contribution to US GDP growth in Q3.

The NFIB small business optimism survey was little changed in September, rising 0.3pts to 91.5. Ahead of the US presidential election next month, the survey's uncertainty index rose sharply to a record high. Respondents' hiring plans improved somewhat after a dip in the prior month.

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