

8 November 2024

MORNING REPORT

Today's economic developments and market movements.

Key themes

FX and fixed income markets walked back on some of the post-election price action.

US treasury yields slipped across the curve, while the US dollar retreated. The unwind didn't materialise in equity markets where the S&P 500 reached a fresh record high.

Central banks delivered on expectations overnight. Both the US Fed and the Bank of England (BoE) announced 25 basis point rate cuts, continuing to move policy settings towards neutral.

Guidance from the BoE struck a cautious tone underpinned by a warning that the recent budget could underpin more persistent inflation.

The Fed stressed that the risks remained balanced and further removal of policy restriction would be warranted. But Jerome Powell retained flexibility to accelerate or slow the pace of easing depending on the data flow.

Data snapshot

FX Last 24 hrs	Current	Change	AUS Interest Rate Swaps	Last	Change
TWI	62.4	1.5%	30 day BBSY	4.36	0.00
AUD/USD	0.6684	1.8%	90 day BBSY	4.47	-0.01
AUD/JPY	102.09	0.5%	180 day BBSY	4.73	0.02
AUD/GBP	0.5146	0.9%	1 year swap	4.27	0.00
AUD/NZD	1.1081	0.2%	2 year swap	4.10	-0.01
AUD/EUR	0.6185	1.0%	3 year swap	4.05	-0.04
AUD/CNH	4.7772	0.9%	4 year swap	4.08	-0.02
AUD/SGD	0.8819	0.7%	5 year swap	4.13	-0.03
AUD/HKD	5.1941	1.7%	6 year swap	4.20	-0.03
AUD/CAD	0.9253	1.0%	7 year swap	4.27	-0.03
EUR/USD	1.0807	0.7%	8 year swap	4.34	-0.04
USD/JPY	152.72	-1.2%	9 year swap	4.40	-0.04
USD Index	104.35	-0.7%	10 year swap	4.59	-0.05

Equities	Close	Change	Government Bond Yields	Close	Change
S&P/ASX 200	8,226	0.3%	Australia		
S&P 500	5,977	0.8%	3 year bond	4.13	0.00
Japan Nikkei	39,381	-0.3%	10 year bond	4.64	0.01
Hang Seng	20,953	2.0%	United States		
Euro Stoxx 50	4,852	1.1%	3-month T Bill	4.42	0.00
UK FTSE100	8,141	-0.3%	2 year bond	4.19	-0.07
VIX Index	15.34	-5.7%	10 year bond	4.31	-0.12
			Other (10 year yields)		
Commodities	Current	Change	Germany	2.45	0.04
CRB Index	281.44	-0.8%	Japan	1.01	0.03
Gold	2705.09	1.7%	UK	4.50	-0.06
Copper	9541.98	3.5%			
Oil (WTI futures)	72.24	0.8%	Sydney Futures Exchange	Current	Change
Coal (coking)	210.00	0.5%	10 yr bond	4.59	-0.06
Coal (thermal)	143.10	0.8%	3 yr bond	4.09	-0.04
Iron Ore	106.00	1.5%	3 mth bill rate	4.39	0.00
ACCU	40.75	2.5%	SPI 200	8,316	0.9%

Data as at 7:30am 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 continued to rip higher. The S&P 500 lifted 0.8% to a fresh record high, while the NASDAQ finished 1.7% higher.

The Euro Stoxx 500 partly unwound falls from the prior session rallying 1.1% while shares were up 1.7% in Germany. The UK's FTSE 100 was the outlier, finishing down for a third straight session following 0.3% fall.

The ASX 200 rose 0.3% yesterday and futures jumped another 1.0% overnight pointing to a decent open this morning. Interestingly, China's Hang Seng (+2.0%) and CSI 300 (+3.0%) rallied in the first session post the US election result, perhaps on the basis that a Trump victory would underpin more forceful fiscal stimulus from Chinese authorities to counteract the likely imposition of trade tariffs.

Interest rates:

US rates rallied, reversing much of the post-election sell-off. The 2-year yield is down 7 basis points at 4.19%, while the 10-year yield is down 12 basis points at 4.31%. Note, however, that yields are still around 60-70 basis points above September levels.

Expectations for another rate cut at the Feds December meeting firmed a little during Jerome Powell's post-meeting press conference this morning with implied odds of a cut currently sitting around 55%.

Aussie bond futures followed the moves in the US overnight. The 3-year futures yield has rallied 4 basis points to 4.09%, while the 10-year yield was down 6 basis points to 4.59%.

Swaps markets have continued to push out expectations for RBA rate cuts following the US election result. A 25 basis point rate cut is not fully priced in until July 2025. There's currently only 40 basis points of cuts priced in by the end of 2025.

Foreign exchange:

The US dollar retraced most of the earlier sessions gains with the DXY index falling from a high of 105.25 to a low of 104.19 and is currently trading near 104.35. The US dollar is now likely on a solid footing following the election, however, the result certainly doesn't fully erase the chances of a flush lower. The focus is now likely to turn back towards Fed rate expectations, any further details on potential Trump policy and importantly, the interaction between the two.

The Aussie dollar continues to outperform, lifting from a low of 0.6564 to a high of 0.6688 and is currently trading only slightly off session highs. The RBA's patient stance and the pairing of rate cut expectations is certainly supporting the move, as is the fact that key commodity markets haven't meltdown on the prospect of Trump tariffs. However, this

Today's key data and events

Time	Event	Exp	Prev
1:45pm	AU RBA's Ast. Gov. Brad Jones Panel		
6pm	CH Current Account Bal. Q3 Prel.		US\$54.5b
2am	US UoM Consumer Sentiment Nov Prel.	71.0	70.5
9 Nov	CH PPI Oct y/y	-2.5%	-2.8%
	CH CPI Oct y/y	0.4%	0.4%

Times are AEDT. 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.

may hinge on optimism on Chinese fiscal policy support which if recent history is any guide, has plenty of potential to underwhelm.

The euro strengthened on the US dollar pull-back lifting from a low of 1.0713 to a high of 1.0825. However, the euro is notably weaker than before the US election result. The Japanese Yen also reversed course with the USD/JPY topping out at 154.71 and heading decisively South. The USD/JPY was sitting around 152.72 at the time of writing.

Commodities:

Crude markets were a little firmer but remained within their recent range. West Texas Intermediate (WTI) futures are up 0.8% at US\$72.24.

Metals were well bid, largely unwinding recent falls. Nickel futures are up 2.9% at US\$16,587, while copper contracts are 3.5% higher at US\$9,541. Iron ore futures are up 1.5% at US\$106.00 and are around the top of the range traded since the middle of October. Optimism for more forceful fiscal stimulus from Chinese authorities remains an important undertone for metals and the election result has likely boosted some of that sentiment on the expectation of pre-emptive support to combat tariff measures. However, given recent history there is plenty of scope for policy action to underwhelm.

Australia:

The goods trade balance surprised to the downside in October with the surplus narrowing to \$4.6bn, the second smallest surplus since 2020. Exports values declined 4.3% in the month, led by key commodity exports, while imports slipped 3.1% in the month as domestic demand remained soft.

RBA Governor Michelle Bullock appeared before parliament yesterday and repeated guidance provided following the policy meeting earlier this week. Importantly, Bullock noted that the bank would not immediately reassess its forecasts following the US election result and that significantly more information on potential policy changes would be needed to consider the ultimate impact on Australia's economic outlook.

China:

Export growth surged in October, rising 12.7% on a year earlier to the fastest annual pace since July 2022. Meanwhile, imports fell 2.3% over the year to October, widening the trade surplus to US\$96bn, the third highest surplus on record. The strong trade result is supporting an economy struggling under the weight of weak domestic demand. But the sustainability

of this important source of growth will be complicated by the recent Trump victory with promises of significant tariffs against Chinese imported goods. The timing and scale of any trade policies will determine the ultimate impact, as will the likely retaliatory response from China, factors which are largely unknown for now.

Eurozone:

German Chancellor Olaf Scholz called for a snap election following a break-up in the ruling coalition centred on disagreement on how to revive weak economic growth. Scholz called for a confidence vote in January, with a goal of pulling forward next year's federal election to March from September and rejected the conservative oppositions demand for a confidence vote by early next week which would pave the way for an election as soon as mid-January. The Social Democrat chancellor is trying to stave off an election until March to give his party longer to recover.

Euro Area retail sales growth was robust in September at 0.5% and follows a material upward revision to August from 0.2% to 1.1%. Annual growth is healthy at 2.9%.

United Kingdom:

The Bank of England (BoE) delivered a well anticipated 25 basis point rate cut, taking the bank rate to 4.75%. Members voted 8-1 in favour of the decision. The tone of accompanying communications was cautious given the expansionary nature of the recent budget and their prior expectation that inflation will temporarily lift in coming quarters. Inflation is not seen sustainably at target until 2027.

United States:

The Federal Reserve Open Market Committee (FOMC) cut rates by 25 basis points as expected, taking the mid-point of the fed funds rate to 4.625%. Overall, the Committee's view on the outlook remains constructive. Labour market conditions "have generally eased, and the unemployment rate has moved up" but it "remains low". "Inflation has made progress toward the Committee's 2 percent objective but remains somewhat elevated." Risks to the outlook are also seen as being "roughly in balance".

Unsurprisingly, there was no reference to this week's election or the potential economic implications. During the press conference Jerome Powell underscored that the election result will not change the near-term path of policy and that the implications of the election result cannot be considered until policy details are announced.

Initial jobless claims were little changed at 221k last week, in line with the market's expectations.



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