11 November 2024

MORNING REPORT

Today's economic developments and market movements.

Key themes

The 'Trump trade' continued in US equities with the S&P 500 notching up its largest weekly increase this year. The S&P 500, the Dow Jones and the NASDAQ all closed at record highs.

The long-end of the US rates curve continued to rally modestly (lower yields) but there was no such relief at the short-end of the curve as markets continued to trim expectations for rate cuts in 2025.

After a stumble on Thursday, the US dollar gained, unwinding most of the move lower but falling short of taking on fresh highs.

Underwhelming policy support in China hit commodity markets. Crude lurched lower, metals came under pressure and iron ore slipped.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	62.4	0.0%
AUD/USD	0.6584	-1.4%
AUD/JPY	100.53	-1.6%
AUD/GBP	0.5097	-0.9%
AUD/NZD	1.1042	-0.4%
AUD/EUR	0.6145	-0.6%
AUD/CNH	4.7384	-0.8%
AUD/SGD	0.8731	-1.0%
AUD/HKD	5.1187	-1.4%
AUD/CAD	0.9153	-1.1%
EUR/USD	1.0712	-0.9%
USD/JPY	152.68	-0.2%
USD Index	105.00	0.5%

Equities	Close	Change
S&P/ASX 200	8,295	0.8%
S&P 500	5,996	0.4%
Japan Nikkei	39,500	0.3%
Hang Seng	20,728	-1.1%
Euro Stoxx 50	4,803	-1.0%
UK FTSE100	8,072	-0.8%
VIX Index	14.94	-1.7%

Commodities	Current	Change
CRB Index	281.68	-1.6%
Gold	2684.77	-0.8%
Copper	9318.23	-2.3%
Oil (WTI futures)	70.38	-2.7%
Coal (coking)	210.33	0.2%
Coal (thermal)	145.15	0.7%
Iron Ore	101.40	-2.8%
ACCU	40.75	2.5%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.36	0.00
90 day BBSY	4.47	0.00
180 day BBSY	4.72	-0.01
1 year swap	4.25	0.01
2 year swap	4.07	0.01
3 year swap	4.03	0.01
4 year swap	4.04	0.00
5 year swap	4.08	0.00
6 year swap	4.16	0.00
7 year swap	4.23	0.00
8 year swap	4.29	-0.01
9 year swap	4.35	-0.01
10 year swap	4.55	-0.01

Government Bond Yields	Close	Change
Australia		
3 year bond	4.08	-0.05
10 year bond	4.58	-0.06
United States		
3-month T Bill	4.42	-0.02
2 year bond	4.25	0.05
10 year bond	4.30	-0.02
Other (10 year yields)		
Germany	2.37	-0.08
Japan	1.01	0.00
UK	4.44	-0.06

Sydney Futures Exchange	Current	Change
10 yr bond	4.54	-0.05
3 yr bond	4.07	-0.01
3 mth bill rate	4.39	0.00
SPI 200	8,281	-0.4%

Data as at 7:52am 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 equtieis finished in the green for a fourth straight session on Friday, continuing their post election rally. The 4.7% weekly gain in the S&P 500 was the largest weekly increase this year. The S&P 500, the Dow Jones and the NASDAQ all closed at record highs. Implied equity market volatility fell to the lowest leve since mid August.

European equities had little beta to the US rally with major bourses lower over the week. Concerns for the possibility of trade tariffs from the US likely weighed on equities, along with region specific dynamics, including political uncertainty in Germany and the flow on impacts of the UK's expansionary Federal Budget. The Euro Stoxx 50 ended the week down 1.5%, while the UK's FTSE 100 was 1.3% lower over the week.

The ASX 200 rose 0.8% on Friday and ended the week 2.2% higher and just 1.1% off its record high. Futures are trading 0.4% lower this morning, pointing to a slight pull-back on the open.

Japanese equities were 3.8% higher over the week, while the major bourses in China also ended the week in the green despite the potential impacts of proposed US tariffs. Futures in China have since unwound part of the move after fiscal policy announcements disappointed and inflation data underscored economic weakness in the Chinese economy.

Interest rates:

The long-end of the US rates curve continued to rally modestly (i.e. lower yields) with outright yields finishing lower over the week in both 10-and-30-year tenors at 4.30% and 4.47%, respectively. There was no such relief at the short-end of the curve as markets continued to trim expectations for rate cuts in 2025. The 2-year yield rose 5 basis points to 4.25%, flattening the 2-10-year curve to just 4.8 basis points, its flattest in a month.

Markets are pricing in around a 50% chance of a follow up rate cut from the Fed in December. There is now just 80 basis points of rate cuts (i.e. a little over three 25 basis point cuts) priced in by the end of 2025.

Aussie bond futures rallied after physical yields ground higher on Friday. The 3-year futures yield is down 1 basis points at 4.07%, while the 10-year is down 5basis points at 4.54%.

RBA rate cuts are not fully priced until May next year with the implied odds of a move in February sitting at just over 40%.

Foreign exchange:

Volatility continued in FX markets with sizeable swings in most majors. The US dollar traded higher, continuing to gyrate in the large 104-105 range. The DXY index rose from a low of 104.34 to a high of 105.21 before closing at 105.00.

Today's key data and events

Time	Event	Exp	Prev
1pm	NZ 2-year Inflation Expectations Q4		2.0%

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.

The Aussie dollar reversed course on the US dollar rebound almost fully erasing the prior sessions run up to 0.6788. The AUD/USD fell to a low of 0.6558 and was sitting around 0.6584 in early trade this morning. Encouragingly, the Aussie dollar does look to be forming a solid base around 0.6540-50, however, so far flushes higher have been extremely short lived. A lack of significant fiscal policy support from China is unlikely to help the Aussie, though optimism around future support is likely to persist given further policy initiatives will be required to combat any tariffs imposed by the US.

The Japanese Yen outperformed and was the only G-10 currency to gain against the US dollar on Friday. The Yen was trading around 152.68 in early trade this morning, around where it was sitting before the US election result and comfortably within the last months range.

The euro pushed lower, retesting 4-month lows in the 1.0680s and was trading a little higher around 1.0712 early this morning. The euro is trading around 2 cents lower than immediately before the US election result and is the weakest performing G-10 currency since last Tuesday's US election.

Commodities:

Underwhelming policy support in China hit commodity markets. Crude futures lurched lower on the prospect of weaker Chinese demand. West Texas Intermediate (WTI) futures are down 2.7% at US$70.38 per barrel.

The upswing in nickel hit a wall with futures pulling back 1.2%. Copper was hit hard, down 2.3% to US$9,318.

Iron ore futures pulled back 2.8% to US$101.40 after bouncing off the 100 day moving average at an intra-day low of US$100.85.

Australia:

There were no major economic data releases on Friday.

China:

The People's Congress Standing Committee appproved a 10 trillion Yuan debt swap package for local authorities to bring off-balance-sheet debt onto the public balance sheet. The package was already mooted and did not include any additional stimulus, disappointing the market.

The measures are expected to drive 600 billion Yuan reduction in interest payments over 5 years. The measures will also aid the bring forward of infrastructure spending into late-2024 and early-2025 and ready local governments to buy up housing assets and land from 2025, an initiative previously announced and intended to provide lasting support to home prices and construction.

While no additional stimulus was announced Friday, Finance Minister Lan Fo'an reportedly promised "more forceful" fiscal stimulus next year. This statement suggests authorities feel they have done enough to achieve growth “around 5%” in 2024 and are progressing in efforts to remove impediments to growth in coming years, with outright stimulus the next step. Refraining from announcing stimulus this year allows the policies to be scaled and timed to offset any trade restrictions imposed by the US and also to suit domestic conditions as the new year begins.

Consumer price index (CPI) inflation edged lower to 0.3% over the year to October slightly missing expectations for an unchanged reading of 0.4%. Producer price deflation accelerated, from -2.8% to -2.9% in annual terms. Expectations were for an improvement to -2.5%.

Weak price outcomes in China are being driven by expanding capacity from strong investment as well as soft domestic demand. The capacity imbalance is set to endure even if additional fiscal support stokes spending growth.

United States:

University of Michigan consumer sentiment lifted modestly in November from 70.5 to 73.0. Expectations rose from 74.1 to 78.5 while the assessment of current conditions edged lower from 64.9 to 64.4. Inflation expectations were little changed at 2.6% and 3.1% for the 1-year and 5-year measures, both consistent historically with the inflation target.

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