13 November 2024

MORNING REPORT

Today's economic developments and market movements.

Key themes

The rally in US equities that drove stocks to a number of record highs ran out of steam. Uncertainty over tonight's inflation data weighed on equities.

Trump trades underpinned some large moves overnight. The US yield curve shifted higher, with the 10-year yield up 13 basis points.

The US dollar continued to surge, reaching its highest level since May. Softer partials in Europe saw the euro fall to its lowest level this year.

The Aussie declined ahead of today's wages read.

Oil and iron ore were broadly unchanged.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	62.0	-0.2%
AUD/USD	0.6537	-0.6%
AUD/JPY	101.11	0.0%
AUD/GBP	0.5131	0.4%
AUD/NZD	1.1028	0.0%
AUD/EUR	0.6158	-0.2%
AUD/CNH	4.7350	-0.4%
AUD/SGD	0.8752	-0.2%
AUD/HKD	5.0847	-0.5%
AUD/CAD	0.9115	-0.4%
EUR/USD	1.0616	-0.4%
USD/JPY	154.68	0.6%
USD Index	106.02	0.4%

Equities	Close	Change
S&P/ASX 200	8,256	-0.1%
S&P 500	5,988	-0.2%
Japan Nikkei	39,376	-0.4%
Hang Seng	19,847	-2.8%
Euro Stoxx 50	4,745	-2.3%
UK FTSE100	8,026	-1.2%
VIX Index	14.86	-0.7%

Commodities	Current	Change
CRB Index	279.39	0.2%
Gold	2599.58	-0.7%
Copper	9201.21	-1.3%
Oil (WTI futures)	68.02	0.0%
Coal (coking)	207.67	-1.3%
Coal (thermal)	144.90	-0.3%
Iron Ore	100.45	-0.1%
ACCU	40.00	0.3%

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	4.31	0.03
2 year swap	4.17	0.05
3 year swap	4.14	0.06
4 year swap	4.15	0.06
5 year swap	4.20	0.06
6 year swap	4.27	0.07
7 year swap	4.34	0.07
8 year swap	4.40	0.07
9 year swap	4.46	0.06
10 year swap	4.65	0.06

Government Bond Yields	Close	Change
Australia		
3 year bond	4.11	0.01
10 year bond	4.56	-0.02
United States		
3-month T Bill	4.43	0.00
2 year bond	4.34	0.09
10 year bond	4.43	0.13
Other (10 year yields)		
Germany	2.36	0.04
Japan	1.02	0.01
UK	4.50	0.07

Sydney Futures Exchange	Current	Change
10 yr bond	4.66	0.08
3 yr bond	4.17	0.06
3 mth bill rate	4.41	0.02
SPI 200	8,200	-1.0%

Data as at 8:30am 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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Today's key data and events

Time	Event	Exp	Prev
11:30am	AU Wage Price Index Q3		
	q/q % change	0.8%	0.8%
	y/y % change	3.5%	4.1%
9:00pm	EZ Industrial Production Sep		1.8%
12:30am	US CPI Oct	0.3%	0.2%
8:45am	NZ Net Migration Sep		1,840

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.

Share markets:

The rally in US equities that drove stocks to a number of record highs ran out of steam, as investors digested the basis of these strong gains. Uncertainty over tonight's inflation data and what it means for the Fed also weighed on equities, with Kashkari suggesting that a December cut is not a done deal.

The broad-based S&P 500 fell 0.3%, the tech-heavy Nasdaq closed 0.1% lower after a late push saw the index recover most of the day's losses, and the Dow Jones was 0.9% lower.

European stocks also traded lower on the back weaker than expected economic data in the UK and Germany. The Euro Stoxx 50 closed 2.3% in the red, the largest daily fall since August. The DAX was 2.1% lower and the FTSE 100 finished 1.2% lower.

There was a similar theme in Asian markets with the Nikkei (-0.4%) and the Hang Seng (-2.8%) both lower.

The ASX200 index started closed 0.1% in the red, pulled down by mining and energy stocks, which mirrored the fall in commodity prices. Four of the eleven sectors finished in red. Futures are pointing to steep falls in early trade this morning.

Interest rates:

The US yield curve shifted higher ahead of tonight's inflation print. The US 2-year bond yield increased 9 basis points to 4.34%, after reaching a high of 4.37% during the session. The 10-year bond yield increased by a large 13 basis points to 4.43%.

The chances of a rate cut in December are sitting at around 62%, with the market pricing in around 70 basis points of cuts by the end of 2025.

Bond yields were also higher across Europe. The 10-year Gilt increased 7 basis points to 4.50%. Following yesterday's labour report, markets are pricing in a 17% chance the BoE will cut in December.

Australian yields were higher ahead of today's wages read. The 3-year futures yield was 6 basis points higher at 4.17%, while the 10-year futures yield was 8 basis point higher at 4.66%. The first full rate cut is now expected by August 2025, with around 45 basis points of cuts expected over 2025.

Foreign exchange:

The US dollar rally continued with the DXY increasing 0.4% to reach its highest level since May this year. We have flagged upside risks to the Greenback as investors continue to assess the future path of the economy and inflation under a Trump administration. Tonight's inflation read could see the US dollar make further gains, particularly given the hawkish comments from Fed officials.

The Aussie depreciated 0.6% against the Greenback, reaching a low of 0.6514. Near term the Aussie remains susceptible given the rise of the Greenback. However, potential for ongoing China stimulus and the RBA's continued hawkish guidance, is likely to provide the Aussie with support.

The euro declined 0.4% to fall under 1.0600 – the lowest rate for the year. While confidence in the US economy has increased, partial economic indicators suggests the euro area is going in the opposite direction, weighing to the bloc's currency.

The Japanese Yen was lower, with the USD/JPY (0.6%) trading at around 154.68 per US dollar. Markets continue to assess the impact of US tariffs on Asian markets, which is weighing on the Yen.

Commodities:

Oil was slightly lower given the surge in the US dollar and another cut in OPEC's demand forecast, which weighed on sentiment. The West Texas Intermediate (WTI) is trading at US$68.02 per barrel.

Industrial metals were down for third consecutive session with copper down 2% to a fresh two month low of $9,144. Aluminium outperformed, falling just 0.83% to $2,565.

Iron ore was broadly unchanged with futures trading at around US$100.45 a tonne in Singapore.

Australia:

The Westpac-Melbourne Institute Consumer Sentiment Index lifted 5.3% to 94.6 index points in November, from 89.8pts in October. Consumer confidence continues to build on last month's gain, with the Index now up 14.4% from its mid-year lows and only 5.4pts below the 'neutral' level of 100.

Consumers are seeing some further easing in the pressure on family finances, are no longer concerned about the risk of further interest rate rises and are becoming more confident about the economic outlook.

The headline business conditions index was unchanged at +7pts, which matches averages for the long-term and the first ten months of 2024. The main survey sub-indexes were also similar to the prior month's readings and their long-term averages. With business conditions starting to stabilise around historical norms, businesses turned more optimistic about the future, as evidenced by the business confidence index surging 7pts in October – the steepest increase this year – to a reading of +5, which is the highest level in twenty-one months and consistent with the long-term average.

Labour costs growth was down 0.5ppt to a quarterly equivalent pace of 1.4%, while the purchase costs index printed a 0.9% pace, which was the first sub-1% reading since late 2020. They contributed to weaker product prices price inflation, which inched lower to the quarterly pace of around 0.5%.

Eurozone:

Headline inflation in Germany rose to 2.0%yr in October, from 1.6% in September. This matched the initial estimate and market expectations. The core reading edged higher in October, by 0.1pp, to 3.0%.

Near term euro area growth prospects were lowered in the ZEW survey, likely weighed down by the outcome of the US presidential election and increased political uncertainty in Germany. The headline index for economic expectations six months ahead was down this month from 20.1 to 12.5, reversing most of the increase last month. On a three-month average basis the index dropped to the lowest level since late last year.

United States:

Small businesses were more optimistic in October, with the NFIB Survey optimism index printing 93.7pts, more than 2pts above August and September levels but below the long-term average of 98. Optimism around the economic outlook seems to be the main driver of the improvement. The survey also showed a sharp increase in uncertainty, with the uncertainty gauge reaching an all-time high.

Lending conditions remained broadly stable in the September quarter according to the Senior Loan Officer Survey. Lending standards tightened for small firms, but remained unchanged for larger firms, which still represents an improvement from the net tightening of conditions in the prior quarter.

Richmond Fed President Thomas Barkin said the economy is in a good place, with price-conscious consumers helping to curb inflation and allowing the US central bank to lower borrowing costs.

The Fed's Neel Kashkari said that 'inflation surprises to the upside' could derail a cut in December, adding that it may take a year or two to get to the central bank's 2% goal.

United Kingdom:

The headline unemployment rate rose to 4.3% from July to September, up from 4.0% in the previous three-month period. This was worse than the 4.1% expected by the market and was the highest unemployment rate since May.

The number of employed individuals increased by 220k, down from the 373k recorded in the previous three-month period. This was below the 287k expected by the market. The number of people with second jobs fell to 3.7% of all employed individuals.

Average weekly earnings excluding bonuses increased 4.8% over the year to the September quarter. This was slightly down on the 4.9% increase recoded in the previous 3-month period.

Average earnings including bonuses were up 4.3% over the year to the September quarter. Pay growth slowed in the private sector but increased in the public sector as the first of the public sector pay deals—for the armed forces and police—authorised by the new Labour government fed through.

New Zealand:

Retail sales rose 0.6% in October. Retail categories that saw gains included hospitality, durables, and apparel. In contrast, there were declines in motor vehicles (excluding fuel) sales. In annual terms retail sales were down 1.1%, improving from a 5.6% decline in September. Overall, the retail sector is starting to show signs of a turnaround. October was the third increase in a row on the back of tax cuts in late July, as well as the start of the RBNZ's rate cutting cycle in August.

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