19 November 2024

MORNING REPORT

Today's economic developments and market movements.

Key themes

Major markets started the week in familiar ranges, though momentum for the 'Trump trade' continued to slow as traders take profits and await concrete policy details from the incoming Administration.

US equities finished in the Green but the mood was a little less upbeat across Europe and in Asian trade yesterday. Though, the ASX 200 did post a modest gain.

Treasury yields were slightly lower in the US but modestly higher across Europe and the UK, while expectations for the path of Central Bank policy rates were little changed.

The US dollar was softer, trading lower highs and lower lows for a third straight session. However, this appears to be a consolidation and a new, higher-range, is likely to be established from here.

The Aussie dollar outperformed on the USD pull-back, supported by a firmly on hold RBA.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	61.4	-0.2%
AUD/USD	0.6507	0.7%
AUD/JPY	100.59	0.9%
AUD/GBP	0.5133	0.2%
AUD/NZD	1.1043	0.2%
AUD/EUR	0.6141	0.2%
AUD/CNH	4.7028	0.6%
AUD/SGD	0.8709	0.4%
AUD/HKD	5.0648	0.7%
AUD/CAD	0.9121	0.2%
EUR/USD	1.0597	0.5%
USD/JPY	154.60	0.2%
USD Index	106.23	-0.4%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.36	0.00
90 day BBSY	4.48	0.01
180 day BBSY	4.71	0.00
1 year swap	4.24	-0.02
2 year swap	4.06	-0.03
3 year swap	4.03	-0.03
4 year swap	4.05	-0.04
5 year swap	4.10	-0.04
6 year swap	4.18	-0.03
7 year swap	4.25	-0.03
8 year swap	4.32	-0.03
9 year swap	4.38	-0.03
10 year swap	4.56	-0.04

Equities	Close	Change
S&P/ASX 200	8,300	0.2%
S&P 500	5,894	0.4%
Japan Nikkei	38,221	-1.1%
Hang Seng	19,577	0.8%
Euro Stoxx 50	4,790	-0.1%
UK FTSE100	8,109	0.6%
VIX Index	15.62	-3.2%

Commodities	Current	Change
CRB Index	284.01	1.5%
Gold	2611.23	1.9%
Copper	8954.64	0.8%
Oil (WTI futures)	69.23	3.3%
Coal (coking)	203.00	-0.5%
Coal (thermal)	145.05	0.3%
Iron Ore	99.65	2.7%
ACCU	42.50	2.1%

Government Bond Yields	Close	Change
Australia		
3 year bond	4.12	-0.05
10 year bond	4.60	-0.03
United States		
3-month T Bill	4.40	0.01
2 year bond	4.28	-0.02
10 year bond	4.41	-0.03
Other (10 year yields)		
Germany	2.37	0.02
Japan	1.08	0.01
UK	4.47	-0.01

Sydney Futures Exchange	Current	Change
10 yr bond	4.58	-0.03
3 yr bond	4.10	-0.02
3 mth bill rate	4.39	0.00
SPI 200	8,345	0.1%

Data as at 8:25am 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 started the week off in the green after selling off through much of last week. The S&P 500 rose 0.4%, while the NASDAQ was up 0.6%. The Dow Jones bucked the trend slipping 0.1%. Implied equity market volatility pulled back noticeably after a spike on Friday.

The tone was mixed in Europe. The Euro Stoxx 50 edged down 0.1% as did the German Dax. In the UK, the FTSE 100 rose 0.6%.

The ASX 200 was up 0.2% yesterday after unwinding an early slide. The Hang Seng was the only other major index to post a daily gain yesterday, rising 0.8%. Shares were down 1.1% in Japan alongside a softer Yen.

Interest rates:

US treasury yields were modestly lower overnight but remained comfortably within recent ranges. 2-and-10-year yields were both off 2 basis points to 4.28% and 4.42%, respectively. The 3-year yield finished down 1 basis point at 4.6% after earlier touching a 5-month high of 4.68%.

Expectations for further Fed rate cuts were little changed. There is around a 40% chance of a cut priced in for the last meeting of 2024 and around 75 basis points of cuts priced in by the end of 2025.

Yields nudged higher across Europe with 2-year yields up around 2-6 basis points higher across the bloc and and 10-year yields up 1-5 basis points. A December rate cut from the European Central Bank (ECB) remains fully priced while the Bank of England (BoE) is expected to stand pat in December.

Ausse bond futures retained their beta to the US rallying modestly overnight after yields edged lower in physical trade yesterday. The 3-year futures yields is down 2 basis points at 4.09%, while the 10-year yield is 3 basis points lower at 4.59%. Rate cuts from the RBA are not fully or near priced in until the middle of 2025. The implied odds of a cut at the February 2025 meeting is currently sitting around 40%.

Foreign exchange:

The US dollar was softer, striking its third consecutive session of lower highs and lower lows. The DXY index traded from a high of 106.81 to a low of 106.13 and is currently sitting around 106.23. The pull-back likely marks the start of a consolidation period as traders take profits on 'Trump trades' and await policy details from the new Administration.

The Aussie dollar has found a tentative floor around 0.6440 and outperformed overnight bouncing off a low of 0.6448 to pop its head back above 65 cents for an intra-day high of 0.6511. The Aussie dollar is likely to continue to outperform on US dollar pull-backs with the RBA firmly on hold until next year. However, that does leave the local currency vulnerable to any near-term softening in the RBA's guidance.

Today's key data and events

Time	Event	Exp	Prev
8am	US Net TIC Flows Sep		$79.2bn
11:30am	AU RBA Meeting Minutes		
9pm	EZ CPI Oct Final	0.3%	0.3%
12:30am	US Housing Starts Oct	-1.3%	-0.5%
	US Building Permits Oct	1.1%	-3.1%

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 euro pushed higher for a third straight session on the back of the softer-US dollar but has so-far under-performed the broader G-10 post the US election result. The EUR/USD rose from a low of 1.0526 to a high of 1.0607 but has since failed to hold above 1.06 in early trade this morning.

The Japanese Yen underperformed with the USD/JPY briefly pushing through 155 to a high of 155.36 after central bank Governor Ueda's comments were interpretted as slightly dovish despite retaining a clear tightening bias.

Commodities:

Crude jumped to a one week high with the focus on supply disruptions and geopolitical tensions. West Texas Intermediate (WTI) futures are up 3.3% at US$69.23. The news that Norway's Sverdrup field had halted oil output due to a power outage was a key factor behind the move, however, signs that the US and allies were getting set to allow Ukraine to use long range missiles for strikes inside Russia added to risks that fuel supplies to the west may be impacted. Also supporting prices was news that the Tengiz oil field in Kazakhstan had cut production by 30% due to maintenance.

Metals were mixed with copper up 0.8% at US$8,955 while aluminium fell 1.5% to US$2,610. There was little fresh news though the focus remains on the news that China had scrapped a tax rebate that had helped fuel a boom in exports.

Iron ore markets regained some ground with futures up 2.7% from the same time yesterday with some talk that steel producers may look to "front run" a rise in tariffs from the incoming Trump administration. Traders appear to be hoping that we will see further policy announcements from China at upcoming meetings including the Central Economic Work Conference.

Australia:

The RBA's Assistant Governor (Financial Markets), Chris Kent, spoke late yesterday on the transmission of monetary policy in Australia. Kent again reiterated that despite structural difference between the Australian economy and other advanced economies, such as the prevalance of variable rate mortgage debt and high levels of household debt relative to income, that the impact of monetary policy on economic activity and inflation does not vary significantly across major economies. The potence of certain channels of policy differ across major economies due to their underlying structural difference but the overall impact of growth and inflation are broadly similar.

Eurozone:

The euro area trade surplus rebounded in September, rising €2.8bn to €13.6bn. The value of exports was up 0.4%, while imports reported a 0.8% decline after two prior monthly increases. Against the backdrop of weakness in the manufacturing sector, the euro area exports have been broadly flat since 2022, and the latest figures suggest no material improvement ahead. Interestingly, the euro area bilateral trade surplus with the US reached its record high in the September quarter, a fact that will not go unnoticed by the new administration in the US when considering new tariffs.

Japan:

Monthly core machinery orders, an indicator of future capital spending, fell 0.7% in Septmeber underwhelming expectations for a 1.5% gain. In annual terms, orders were 4.8% lower, well short of expectations and the weakest annual growth rate since January. While inherently a fairly volatile series, the data is another sign that the economic recovery remains fragile.

This was certainly apparent to Bank of Japan (BoJ) Governor Ueda in his remarks yesterday. Ueda continued to strike a cautious tone, reaffirming that further removal or policy support would be appropriate if the nascent economic recovery built on current momentum. But Ueda didn't come across as being in a hurry to hike rates, underscoring that decisions will be made on a meeting by meeting basis and highlighting the BoJ's attentiveness to offshore risks, particularly from a change in Administration in the US.

United States:

The NAHB housing market survey suggested that builder confidence in the US improved in November. The headline survey index was up by 3 points to a seven-month high of 46. Current sales conditions were assessed to have improved slightly, but the biggest driver was more positive expectations for the sales in the next six month, with the relevant index rising 7 points to 64, the highest level since mid-2022.

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