

20 November 2024

# MORNING REPORT

Today's economic developments and market movements.

## Key themes

Risk assets were sold off with capital flowing to haven assets as Russia's war against Ukraine entered a dangerous new phase. President Putin signed a decree allowing the use of nuclear weapons in the event of attacks on Russian soil after Ukraine made its first strike inside Russia.

Demand for treasuries increased which saw yields at the longer end of the curve fall in the US and Europe. The US dollar was broadly unchanged suggesting that the currency is taking its cues from other catalysts, such as the direction of shorter-term yields. The Aussie outperformed on the back of the RBA Board's November minutes.

US equities were mixed with the risk off tone giving way to Nvidia's upcoming earnings report. Equities were lower across Europe.

Gold jumped, bitcoin hit a record high of more than \$93,500, while oil and iron ore also made gains.

## Data snapshot

FX Last 24 hrs	Current	Change
TWI	61.7	0.5%
AUD/USD	0.6532	0.4%
AUD/JPY	101.06	0.4%
AUD/GBP	0.5151	0.3%
AUD/NZD	1.1049	0.1%
AUD/EUR	0.6165	0.4%
AUD/CNH	4.7262	0.5%
AUD/SGD	0.8738	0.3%
AUD/HKD	5.0846	0.4%
AUD/CAD	0.9121	0.0%
EUR/USD	1.0596	0.0%
USD/JPY	154.70	0.0%
USD Index	106.21	-0.1%

Equities	Close	Change
S&P/ASX 200	8,374	0.9%
S&P 500	5,911	0.3%
Japan Nikkei	38,414	0.5%
Hang Seng	19,664	0.4%
Euro Stoxx 50	4,751	-0.8%
UK FTSE100	8,099	-0.1%
VIX Index	16.03	2.9%

Commodities	Current	Change
CRB Index	285.10	0.4%
Gold	2633.94	0.8%
Copper	8994.50	0.7%
Oil (WTI futures)	69.50	0.5%
Coal (coking)	201.50	-0.7%
Coal (thermal)	143.40	-1.1%
Iron Ore	101.35	1.9%
ACCU	42.25	-0.6%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.36	0.01
90 day BBSY	4.47	0.00
180 day BBSY	4.71	0.00
1 year swap	4.22	0.00
2 year swap	4.04	-0.01
3 year swap	4.00	-0.01
4 year swap	4.02	-0.01
5 year swap	4.07	-0.01
6 year swap	4.13	-0.01
7 year swap	4.21	-0.01
8 year swap	4.27	-0.01
9 year swap	4.33	-0.01
10 year swap	4.54	0.00

Government Bond Yields	Close	Change
Australia		
3 year bond	4.08	-0.04
10 year bond	4.56	-0.04
United States		
3-month T Bill	4.39	0.00
2 year bond	4.28	0.00
10 year bond	4.39	-0.03
Other (10 year yields)		
Germany	2.34	-0.04
Japan	1.07	-0.01
UK	4.44	-0.02

Sydney Futures Exchange	Current	Change
10 yr bond	4.54	-0.04
3 yr bond	4.06	-0.02
3 mth bill rate	4.39	0.00
SPI 200	8,400	-0.1%

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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## Share markets:

US equities ended the volatile session in mixed territory, with the VIX indicator climbing around 2.8%. Equity markets started the session in the red, before attention turned from concerns over the conflict in Europe to Nvidia's upcoming earnings report. Tech stocks were higher with Nvidia climbing 3%.

The broad-based S&P 500 gained 0.3%, with the tech-heavy Nasdaq 1.1% higher. The Dow Jones was 0.3% lower.

European stocks declined amid growing concerns over the conflict in Europe. The Euro Stoxx 50 closed 0.8% in the red. The DAX was 0.7% lower and the FTSE 100 finished 0.1% lower.

Asian markets were generally higher, with the Nikkei (+0.5%) and the Hang Seng (+0.4%) both finishing in the green.

The ASX200 index made gains for the fourth consecutive session, finishing 0.9% higher. The gains were broad based with all sectors finishing higher, led by financial stocks. Futures are pointing to a soft open this morning.

## Interest rates:

The US yield curve flattened overnight. The US 2-year bond yield was unchanged at 4.28%, after falling to 4.20% during the session. The 10-year bond yield declined 3 basis points to 4.39%, after falling to an intraday low of 4.33%.

The chances of a rate cut in December are sitting at around 55%. Markets continue to price in around 75 basis points of cuts by the end of 2025.

European yields also finished lower as capital flowed to safer assets. UK 10-year Gilt yields slipped 2.5 basis points to 4.44%. The 10-year Bund yield declined 3.5b basis points to 2.34%.

The Aussie yield curve also shifted lower. The 3-year futures yield was 2 basis points lower at 4.28%. The 10-year futures yield was 4 basis points lower at 4.54%.

The first full rate cut is now expected by May 2025, shifting back from July in the previous session. The RBA Board November minutes suggests that the Board will need to see at least two benign quarterly inflation reads before it can confidently assess that inflation is sustainably heading back to target. This leaves the May meeting as the first possible date for the Board to start easing, assuming there are no significant shocks in the interim. Around 46 basis points of cuts expected over 2025.

## Foreign exchange:

The US dollar index was slightly down for the second consecutive session, with the DXY trading between a low of 106.187 and a high of 106.632, before ending the session where it started: at around 106.21. Surprisingly, the risk

## Today's key data and events

Time	Event	Exp	Prev
10:30am	AU WBC-MI Leading Index Oct		-0.15%
6:00pm	UK CPI Oct y/y		1.7%

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.

off tone did not support the US dollar, suggesting that the currency is taking its cues from other catalysts, such as the direction of yields. The movements in the DXY mirrored changes to the 2-year government bond yield.

The Aussie outperformed amid more hawkish than expected minutes from the RBA's November meeting. The AUD/USD pair increased 0.4% to 0.6532. The RBA's more hawkish stance could provide the pair with near term support.

The euro stabilised to finish broadly unchanged at just under 1.060. Downside risk remain given political uncertainty in Europe and the bloc's relative economic performance. The Japanese Yen was also unchanged with the USD/JPY trading at 154.70, after jumping as much as 0.9% earlier in the session.

## Commodities:

Oil markets flipped between gains and losses as the focus changed from hopes of a ceasefire in the Israel Hezbollah war to developments in the Russia Ukraine war. The West Texas Intermediate (WTI) is trading 0.5% higher at US\$69.50 per barrel.

Industrial metals were generally higher as the US dollar eased. Copper is up another 0.5%, back above \$9,100, while aluminium rose 1.5% to \$2,645. Mitsui was reported as the highest bidder for a stake in First Quantum's Zambian copper mines. Glencore was reported as striking a deal to test copper leaching at its copper mine in northern Chile. The process developed by Ceibo extracts copper from sulphide ores, potentially allowing mine life to be extended for many years.

Iron ore increased to be above USD100 a tonne as markets focussed on the potential for further stimulus from the Central Economic Work Conference which would be due to take place around the middle of December. Futures are trading at around US\$101.03 a tonne in Singapore.

## Australia:

The RBA Board continues to be data dependent and is not ruling "anything in or out in relation to future changes in the cash rate target." The underlying tone in the November minutes was little changed with the Board still assessing that inflation remains "too high," policy remains restrictive, and that at some point there will need to be rate cuts, but there was "no immediate need to change the cash rate target."

There were mixed messages when it comes to other notable changes with the minutes noting it is important to "remain forward looking, avoiding an excessive reliance on backward-looking information" but that the Board would still need to see "more than one good quarterly inflation outcome" to be confident that inflation is sustainably returning to the RBA's target. This represents a significant shift from the August



minutes where the Board judged that it was appropriate to place more weight on the actual flow of data, rather than forecasts or other forward-looking indicators.

### **United States:**

Housing starts declined 3.1%*mth* in October, following a 1.9%*mth* decline in September. The declines left housing starts at 1.311m, close to the bottom of the range seen this year. Building permits fell 0.6%*mth* to 1.416m in October. Overall, despite a significant rise in business sentiment in the sector seen in yesterday's NAHB survey, the figures highlighted that house builders continue to face challenging market conditions as high mortgage rates continue to restrict demand for new homes.

### **Canada:**

Headline inflation was 0.4% in October to be 2.0% in annual terms – at the Bank of Canada's 2% target rate. This was slightly above the 0.3% expected by the market. The increase was largely driven by waning base effects for gasoline prices, with gasoline prices down 10.7% in September. Inflation slowed for shelter and food.

### **Eurozone:**

The final inflation outcome for October confirmed the flash estimates of 2.0%*yr* in headline terms and 2.7%*yr* core inflation. Services category once again highlighted persistence of domestic inflationary pressures. It reported a 4.0%*yr* increase, 0.1p*pt* higher than in the flash estimate and little changed from the last twelve months when it oscillated around a very similar level. A 0.5p*pt* increase in food inflation to 2.9%*yr* was maintained. Looking ahead, inflation is likely to increase temporarily as a bigger decline a year ago drops out of the comparison window.



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