



10 December 2024

MORNING REPORT

Today's economic developments and market movements.

Key themes

Markets continued their holding pattern ahead of US inflation data tomorrow night and with little top tier economic data.

US equities pulled back, halting their recent rally, while treasuries also sold off, continuing a broad consolidation.

China's Politburo sent a clear message that it's ready to take a "more proactive" approach to fiscal policy while also embracing "moderately loose" monetary policy in 2025.

Commodity markets rallied on the Politburo comments, while developments in Syria also supported crude markets.

The US dollar was a touch firmer, but USD performance is becoming less uniform across the G-10.

The Aussie dollar outperformed, receiving a slipstream from Politburo comments, while the Japanese Yen slipped sharply.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	60.5	-0.5%
AUD/USD	0.6435	0.7%
AUD/JPY	97.30	1.5%
AUD/GBP	0.5050	0.7%
AUD/NZD	1.0977	0.2%
AUD/EUR	0.6101	0.9%
AUD/CNH	4.6777	0.5%
AUD/SGD	0.8629	0.6%
AUD/HKD	5.0027	0.6%
AUD/CAD	0.9117	0.8%
EUR/USD	1.0548	-0.2%
USD/JPY	151.20	0.8%
USD Index	106.20	0.1%

Equities	Close	Change
S&P/ASX 200	8,423	0.0%
S&P 500	6,055	-0.6%
Japan Nikkei	39,161	0.2%
Hang Seng	20,414	2.8%
Euro Stoxx 50	4,985	0.2%
UK FTSE100	8,352	0.5%
VIX Index	14.08	10.3%

Commodities	Current	Change
CRB Index	289.06	0.9%
Gold	2657.95	0.9%
Copper	9128.06	1.2%
Oil (WTI futures)	68.16	1.4%
Coal (coking)	205.00	0.0%
Coal (thermal)	133.25	0.6%
Iron Ore	106.35	1.9%
ACCU	38.55	0.1%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.37	0.01
90 day BBSY	4.49	0.01
180 day BBSY	4.70	0.00
1 year swap	4.12	0.03
2 year swap	3.89	0.03
3 year swap	3.83	0.04
4 year swap	3.83	0.04
5 year swap	3.87	0.04
6 year swap	3.93	0.04
7 year swap	4.00	0.04
8 year swap	4.06	0.04
9 year swap	4.12	0.04
10 year swap	4.31	0.04

Government Bond Yields	Close	Change
Australia		
3 year bond	3.79	-0.02
10 year bond	4.20	-0.02
United States		
3-month T Bill	4.29	0.00
2 year bond	4.12	0.02
10 year bond	4.20	0.04
Other (10 year yields)		
Germany	2.12	0.01
Japan	1.05	-0.01
UK	4.27	-0.01

Sydney Futures Exchange	Current	Change
10 yr bond	4.27	0.06
3 yr bond	3.84	0.05
3 mth bill rate	4.42	0.01
SPI 200	8,453	0.1%

Data as at 7:45am 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 hit the breaks to start the week, halting recent gains. The S&P 500 is down 0.6%, the Dow Jones is 0.5% lower, while the NASDAQ is off 0.7%.

European equities were mixed. The Euro Stoxx 50 rose 0.2%, the UK's FTSE 100 advanced 0.5%, while the German Dax slipped 0.2%.

The ASX 200 was flat yesterday after erasing earlier falls. Futures are up 0.1% on yesterday's close pointing to a broadly flat open this morning. The Hang Seng jumped late in yesterday's trade in response to more forceful policy rhetoric from China's Politburo, finishing the day up 2.8%.

Interest rates:

US treasuries sold off across the curve, continuing a broad consolidation ahead of key US inflation data tomorrow night. 2-year yields are up 2 basis points at 4.12%, while 10-year yields are 4 basis points higher at 4.20%. The 2-10-year yield curve closed at 6.7 basis points, its widest in almost three weeks.

Market pricing implies an 85% chance the Fed cuts rates at next week's policy meeting and there's around 90 basis points of cuts priced in by the end of 2025.

Short-rates were modestly lower in European markets, while longer-dated tenors were firt to one basis point firmer in yield. A rate cut from the European Central Bank remains fully priced for the December meeting later this week.

Aussie bond futures retained their high beta to US led sell-offs. 3-and-10-year futures yields are up 5 and 7 basis points respectively at 3.84% and 4.27%. Market pricing continues to imply May is the most likely starting date for the RBA's rate cut cycle with just over 75 basis points of cuts priced in by the end of 2025.

Foreign exchange:

The US dollar was a little firmer but comfortably held its recent consolidation range, trading between a low of 105.79 and a high of 106.21. USD performance is becoming more varied against the majors, a clear signal that the broad US dollar outperformance through October and November is taking a breather, at least for now. Rates markets have gradually bolstered expectations for Fed rate cuts in 2025, likely leaving the US dollar reasonably supported in the event of a dovish tilt from the Fed at next week's meeting and potentially some room for upside if the Fed's patient mantra is strengthened. Much of that will depend on inflation data out late Wednesday night.

The Aussie dollar outperformed, receiving a slipstream from a more constructive policy stance from China's Politburo. The AUD/USD rose from a low of 0.6380 to a high of 0.6471 and is current trading around 0.6435. Crucial now will be whether

Today's key data and events

Time	Event	Exp	Prev
11:30am	AU NAB Business Confidence Nov	-	5pts
11:30am	AU NAB Business Conditions Nov	-	7pts
2:30pm	AU RBA Policy Decision	4.35%	4.35%
10pm	US NFIB Small Business Optimism Nov	94.5pts	93.7pts
12:30am	US Productivity Q3	2.2%	2.2%

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.

policy action lives up to the forceful comments from officials, we remain cautious given recent the experience. The RBA meeting today will also be important for the Aussie. Rate markets moved quickly to price in faster and deeper rate cuts in 2025 following last week's soft National Accounts, today will confirm whether the RBA is reading the same tea leaves.

The Japanese Yen underformed as expectations for a rate hike in December capitulated from around a 60% chance to closer to 30%. The USD/JPY rose from 149.69 to a high of 151.35 but remains broadly within its December range after resetting lower late in November. The market moves followed comments from Prime Minister Shigeru Ishiba denying that the government will revise an agreement between the Bank of Japan (BOJ) and the Government that commits the BOJ to achieving its 2% inflation target.

Commodities:

Developments in Syria and news of a bolder stimulus in China helped crude recover the losses seen on Friday. West Texas Intermediate (WTI) futures are up 1.4% at US\$68.16 per barrel.

Metals also jumped on the news in China with copper up 1.2% at US\$9,128 and zinc up 1.8% at US\$3,128. Aluminium lagged, again though closing below US\$2,600.

Iron ore jumped on the China Politburo news, with futures up 1.9% to US\$106.35. News that the authorities will "effectively prevent and defuse risks in key sectors to ensure no systematic risks rise" was taken as a sign of further moves to stabilise the property market.

Australia:

There were no major economic data releases yesterday.

China:

China's Politburo sent a clear message that it's ready to take a "more proactive" approach to fiscal policy while also embracing "moderately loose" monetary policy in 2025. The firmer tone on stimulus sets the scene for the Central Economic Work Conference, set to begin on Wednesday, which will more firmly set out policy priorities and objectives including the annual growth goal.

Consumer price inflation decelerated further in November, signalling that policy efforts have so far been insufficient in boosting domestic consumption. The consumer price index (CPI) rose just 0.2% over the year to November, right on the cusp of outright deflation after a third consecutive monthly deceleration in annual inflation.



Deflation in the producer price index (PPI) persisted for a 26th month, down 2.5% over the year to November. The rate of PPI deflation has accelerated materially since the middle of 2024 suggesting further downward pressure on consumer prices in the absence of a meaningful pickup in demand.

Eurozone:

Sentix investor confidence deteriorated to its lowest since November 2023, falling to -17.5 in December from -12.8 previously. The assessment of current conditions and expectations for the outlook both softened.

Japan:

GDP growth was finalised a little higher in the September quarter, at an annualised pace of 1.2%, up from an initial estimate of 0.9%. The revisions, however, were centred on trade and inventory components rather than any upside on domestic demand. Overall, the data confirms that the nascent recovery in real activity remains in tact, but it's far from flourishing, giving policymakers plenty of cause for caution as they dial back accommodative monetary policy settings.

United States:

One-year ahead inflation expectations were little changed in the November New York Fed consumer survey. At 2.97%, expectetations have now held the same 0.1ppt range since June.



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