11 December 2024

MORNING REPORT

Today's economic developments and market movements.

Key themes

Markets remained in a holding pattern ahead of tonight's US inflation read that will give the Fed a final look at price pressures ahead of their meeting next week.

US equities lacked direction for most of the session, finishing lower on the back of tech and resources stocks.

US bond yields were higher as investors positioned ahead of next week's Fed meeting. The US dollar edged higher on the back of yield support.

The market reaction to the RBA's dovish pivot continued overnight with the Aussie hitting a low of 0.6365 – its lowest level since August. Bond futures did retrace earlier falls but remained lower. The market is now fully priced in for an April rate cut and almost 90 basis points of cuts next year, a clear shift from the 75 basis points of cuts starting in May priced in prior to the RBA's announcement.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	60.5	0.0%
AUD/USD	0.6381	-0.9%
AUD/JPY	96.93	-0.5%
AUD/GBP	0.4996	-1.1%
AUD/NZD	1.1001	0.2%
AUD/EUR	0.6062	-0.6%
AUD/CNH	4.6325	-1.0%
AUD/SGD	0.8563	-0.8%
AUD/HKD	4.9609	-0.9%
AUD/CAD	0.9040	-0.9%
EUR/USD	1.0525	-0.3%
USD/JPY	151.92	0.5%
USD Index	106.39	0.2%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.37	-0.01
90 day BBSY	4.49	0.00
180 day BBSY	4.72	0.02
1 year swap	4.03	-0.08
2 year swap	3.78	-0.11
3 year swap	3.71	-0.12
4 year swap	3.72	-0.11
5 year swap	3.76	-0.11
6 year swap	3.82	-0.10
7 year swap	3.89	-0.10
8 year swap	3.96	-0.09
9 year swap	4.02	-0.09
10 year swap	4.22	-0.09

Equities	Close	Change
S&P/ASX 200	8,393	-0.4%
S&P 500	6,041	-0.2%
Japan Nikkei	39,368	0.5%
Hang Seng	20,311	-0.5%
Euro Stoxx 50	4,952	-0.7%
UK FTSE100	8,280	-0.9%
VIX Index	14.21	0.1%

Commodities	Current	Change
CRB Index	290.47	0.5%
Gold	2691.41	1.2%
Copper	9128.06	1.2%
Oil (WTI futures)	68.37	0.0%
Coal (coking)	205.00	0.0%
Coal (thermal)	133.25	0.0%
Iron Ore	105.15	0.1%
ACCU	38.38	-0.5%

Government Bond Yields	Close	Change
Australia		
3 year bond	3.70	-0.08
10 year bond	4.14	-0.06
United States		
3-month T Bill	4.28	-0.01
2 year bond	4.14	0.02
10 year bond	4.22	0.02
Other (10 year yields)		
Germany	2.12	0.00
Japan	1.07	0.02
UK	4.32	0.05

Sydney Futures Exchange	Current	Change
10 yr bond	4.17	0.02
3 yr bond	3.72	0.01
3 mth bill rate	4.42	0.00
SPI 200	8,394	-0.2%

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
6:00pm	AU RBA Deputy Governor Speech		
12:30am	US CPI Nov	0.3%	0.2%

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:

US equities lacked direction for most of the day, finishing slightly lower on the back of falls in tech and resource stocks. US Steel stock crashed 18% after Bloomberg reported that President Biden would block its acquisition by Japanese steel company Nippon. Nvidia continued to slide on the back of growing trade tensions with China, while Oracle Corp declined 8.3% after reporting growth for the latest quarter that fell just short of analysts' expectations. The Nasdaq down 0.25%, while the Dow Jones was 0.35% lower and the S&P 500 fell 0.32%

European stocks were also generally lower, following an eight-day rising streak as enthusiasm about China's latest stimulus pledge faded. The Euro Stoxx 50 closed 0.7% lower while the FTSE 100 declined 0.9%. The DAX was little changed, down 0.08% on the day.

The ASX200 index slipped 0.4% following the slight gain recorded on Monday. The index pared back steeper falls (of around 0.8%) recorded earlier in the session, with the RBA's dovish pivot providing the market with some support. Eight of the eleven sectors finished lower, led by financials and tech stocks. Futures are pointing to a soft open this morning.

Interest rates:

US bond yields were slightly higher ahead of the US inflation read. The policy sensitive 2-year bond yield was 2 basis points higher at 4.14%. The US 10-year bond yield was also 2 basis points higher 4.22%. Money markets are pricing in an 85% chance the Fed will cut by 25bps on 18 December, higher than the 65% chance priced in a week ago. There are 85bpts of cuts priced in by the end of 2025.

Aussie futures partly retraced yesterday's falls where the 3-year bond yield declined 8 basis points to 3.70% and the 10-year yield declined 6 basis points to 4.14%. The 3-year futures yield increased 1 basis points to 3.70%, while the 10-year futures yield increased 2 basis points to 4.17%.

European yields were generally higher. The Bank of Canada meets later today with markets pricing in 46 basis points of cuts.

Foreign exchange:

The US dollar moved higher breaking through the upper bound of recent range to reach a high of 106.637. Yield support ahead to tonight's inflation data saw the Greenback well supported. Tonight's inflation read will be key to movements in the near term, with an outcome consistent or above consensus likely to see the Fed double down on its cautious and measured approach, supporting the Greenback.

The Aussie fully retraced the gains recorded in the previous session on the back of China's bold Politburo message. As we have been saying, the AUD/USD was susceptible to a dovish shift in RBA communications. Following the RBA Board announcement, the Aussie fell sharply and continued to be sold off overnight, reaching a four-month low. The Aussie remains vulnerable to shifts in risk sentiment and softer economic data. A consensus US inflation read or a softer than expected labour market read is likely to see the Aussie come under increased pressure.

The Japanese Yen underperformed, with the USD/JPY increasing by 0.5% to 151.92. Money markets are currently pricing in a 22% of a hike in December and are pricing in a full hike by May.

The euro declined 0.3% and remains susceptible to downside risks given political instability and a slight chance of a 50bpt cut when the ECB meets in December.

Commodities:

Oil markets were broadly unchanged as the outlook for bolder stimulus in China next year countered weak trade data from the world's biggest crude importer. The West Texas Intermediate (WTI) is trading at US$687.3 per barrel.

Iron ore held the gains made in yesterday's session, edging higher to be trading at US$105.15. Iron ore jumped to an 8-week high on the open of Chinese markets after the Politburo readout confirmed it had adopted "moderately loose" monetary policy and "more proactive fiscal policies".

Metals also generally held on to gains chalked up in yesterday's session following the news coming out of China. Copper was largely unchanged with aluminium regaining some the previous day's fall. The focus remains on Chinese data and news with exports rising ahead of the end of the VAT export rebate. Chinese exports of unwrought aluminium surged 15%mm and 36%yy as producers rushed to meet orders before the rebate was cancelled.

Australia:

The RBA Board held the cash rate steady at 4.35% at the conclusion of its two-day meeting yesterday. There was a significant shift in language which triggered a large market reaction. The Board's policy statement is no longer saying that it is 'not ruling anything in or out', as it had in every statement since March. The word 'vigilant' was also cut and replaced with the Board is 'gaining some confidence that inflationary pressures are declining in line with these recent forecasts.' In other words, the Board is getting closer to the point that the RBA will be comfortable cutting rates.

Despite this, the Board remains concerned that underlying inflation remains above target, with the key trimmed mean measure at 3.5% over the year to the September quarter. It infers from this level of inflation that aggregate demand continues to outstrip aggregate supply. The Board is therefore resolved to keep monetary policy restrictive until it is clear inflation is returning to target on the desired timetable.

The headline business conditions index posted its steepest decline in almost two years, down 5pts to a reading of +2, well below this year's and the long-run average of 7. The drop was mainly driven by more challenging trading conditions, with the relevant constituent sub-index falling to lows not seen since August 2020. Similarly, the survey's profitability measure also fell notably, reporting only its second negative reading since 2020. Meanwhile, the employment sub-index was somewhat more stable, falling only 1pt, but at the level of +2, it was one of the lowest readings in recent years.

The business confidence index reversed the strong gain of the prior month and plummeted 8pts to –3. Weaker inflow of new orders is likely to have contributed to that downward shift, while some unfavourable news headlines on political changes in other countries and the international economic environment might have also added to more negative sentiment. Among few brighter spots, the survey's capital expenditure gauge rose 2pts to return to the top of the range in the last fifteen months.

On inflation, the November survey did not report any material changes to the narrative, with capacity utilisation remaining at 82.4% and labour and product price growth rates moving sideways too.

United States:

NFIB Small Business Sentiment Index surged 8pts to a 3½ year high of 101.7, with expectations that lower taxes and less regulation should support economic growth in the US driving the improvement. The post-election increase in the uncertainty index was reversed, and a net balance of 14% of business owners, a post-pandemic high, said it is a good time to expand.

China:

The latest trade data showed that Chinese trade surplus rose further in December reaching USD97.4bn, the third highest level on record. Exports were up 6.7%yr, which represented a decline from the 12.7%yr pace in October but was broadly consistent with elevated growth seen since around the middle of 2024. Strong exports to the US seem to reflect frontloading of the shipments ahead of the expected increase in import tariffs in the US.

Meanwhile, total imports were down on the annual basis for a second consecutive month, by almost 4%. Chines imports from Australia were down 15%yr, extending the period of negative annual growth to ten months. Overall, the trade figures suggested that the external sector is on track to provide positive contribution to Chinese GDP growth this quarter.

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