

12 December 2024

# MORNING REPORT

Today's economic developments and market movements.

## Key themes

US inflation data came in as expected in November. Traders upped bets for a Fed rate cut this week as the data is unlikely to shift the Fed's assessment that current levels of restrictiveness are no longer appropriate.

However, signs of stalling disinflation progress will call into question the pace of easing in 2025.

US equities resumed their rally after a pause through the start of the week. Treasury yields were modestly higher across the curve in a broad bear-steepening move.

The US dollar was firmer, hitting a 2-week high but broadly holding recent ranges. The Aussie dollar sank to a fresh 2024 low, exploring levels not seen since November 2023.

## Data snapshot

FX Last 24 hrs	Current	Change
TWI	60.4	-0.2%
AUD/USD	0.6372	-0.1%
AUD/JPY	97.22	0.3%
AUD/GBP	0.4998	0.1%
AUD/NZD	1.1011	0.1%
AUD/EUR	0.6072	0.2%
AUD/CNH	4.6391	0.2%
AUD/SGD	0.8568	0.1%
AUD/HKD	4.9538	-0.1%
AUD/CAD	0.9024	-0.2%
EUR/USD	1.0494	-0.3%
USD/JPY	152.58	0.4%
USD Index	106.69	0.3%

Equities	Close	Change
S&P/ASX 200	8,354	-0.5%
S&P 500	6,086	0.9%
Japan Nikkei	39,372	0.0%
Hang Seng	20,155	-0.8%
Euro Stoxx 50	4,959	0.2%
UK FTSE100	8,302	0.3%
VIX Index	13.65	-3.7%

Commodities	Current	Change
CRB Index	293.68	1.1%
Gold	2717.10	0.8%
Copper	9081.07	-0.3%
Oil (WTI futures)	70.33	2.5%
Coal (coking)	204.50	-0.2%
Coal (thermal)	132.50	-0.6%
Iron Ore	105.30	-0.8%
ACCU	37.68	-1.8%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.37	0.00
90 day BBSY	4.49	-0.01
180 day BBSY	4.65	-0.07
1 year swap	4.01	-0.01
2 year swap	3.76	-0.01
3 year swap	3.71	0.01
4 year swap	3.71	0.02
5 year swap	3.75	0.01
6 year swap	3.82	0.02
7 year swap	3.91	0.03
8 year swap	3.97	0.03
9 year swap	4.02	0.02
10 year swap	4.24	0.03

Government Bond Yields	Close	Change
Australia		
3 year bond	3.73	0.02
10 year bond	4.18	0.05
United States		
3-month T Bill	4.25	-0.02
2 year bond	4.16	0.01
10 year bond	4.27	0.04
Other (10 year yields)		
Germany	2.13	0.00
Japan	1.08	0.01
UK	4.32	-0.01

Sydney Futures Exchange	Current	Change
10 yr bond	4.21	0.01
3 yr bond	3.74	0.01
3 mth bill rate	4.43	0.00
SPI 200	8,415	0.5%

Data as at 8:00am 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 resumed their rally after a brief intermission over the start of the week. The S&P 500 is up 0.9% and back around Friday's level, while the NASDAQ is 1.8% higher, scaling a fresh record high.

The ASX 200 slipped 0.5% yesterday but futures are higher on the back of US markets overnight and look to have largely reversed yesterday's fall. The equity markets' sharp response to bullish commentary from China's Politburo has since fizzled out with the Hang Seng and the CSI 300 trading back around last week's levels after another slide in yesterday's trade.

### Interest rates:

Markets pushed the implied odds of a Fed rate cut next week up to around 97% following US inflation data which met expectations. However, signs of stalling inflation progress will raise further questions about the likely pace of easing through 2025.

Bond markets look to have focused on this point, with yields modestly higher across the curve in a broad bear steepening move. The 2-year yield is up 1 basis point to 4.16%, while the 10-year yield is 4 basis points higher at 4.27%.

Aussie bond futures sold off just one basis point in both the 3-and-10-year tenors to 3.74% and 4.21%, respectively. Markets are attaching around a 68% chance to an RBA rate cut in February with two cuts fully priced in by May.

### Foreign exchange:

The US dollar was firmer against most majors, with the DXY testing a 2-week high of 106.80 before pulling back slightly to trade around 106.69 at the time of writing. Risks around next week's fed meeting are becoming a little more one-sided as market pricing has moved more decisively towards a cut. However, the focus will be on the likely pace of cuts in 2025 rather than the decision itself, unless it surprises of course. Here, markets have already gone a long way towards pricing a slower cadence of cuts through 2025 with just over 60 basis points of easing priced in over the year.

The Aussie dollar slumped to a fresh 2024 low, testing levels last seen in November 2023 around 0.6337. However, the dive lower was only brief with the AUD/USD now trading back up around 0.6372. That said, the case for material upside for the Aussie looks weak and it's likely to remain under pressure over the coming days, particularly if news from China's Central Economic Work Conference (CEWC) underwhelms.

After testing the top of its recent range late last week the euro has been back under pressure through the start of this week and is now back below 1.05 after dropping to a low of 1.0480 overnight. This is consistent with what is an increasingly challenging backdrop for the euro. The European Central Bank (ECB) is poised to ease policy faster than many

## Today's key data and events

Time	Event	Exp	Prev
11:30am	AU Employment Nov	20.0k	15.9k
11:30am	AU Unemployment Rate Nov	4.2%	4.1%
11:30am	AU Participation Rate Nov	67.1%	67.1%
12:15am	EZ Main Refinancing Rate	3.15%	3.40%
12:30am	US PPI Nov	0.2%	0.2%
12:30am	US Initial Jobless Claims w/e 7 Dec	220k	224k

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.

peers in response to soggy economic activity, while political instability and a broad fiscal consolidation agenda add to the bear case.

The Yen continued to sell off against the greenback with the USD/JPY rising from a low of 151.02 to a 2-week high of 152.82. Traders have all but abandoned expectations for a rate hike from the Bank of Japan (BoJ) next week and a hike is now not fully priced until May next year. This was helped along by reports that BoJ officials see a small cost to waiting before raising rates.

### Commodities:

Crude markets firmed as OPEC made its deepest cut to the 2024 crude demand outlook, slashing projections for demand growth this year and next for a fifth month. It chopped forecasts by 210,000 barrels a day to 1.6 million barrels per day lowering guidance by 27% since July. Meanwhile, US crude inventories fell by a more-than-expected last week with inventories down 1.43 million barrels last week according to Energy Information Administration data. West Texas Intermediate (WTI) futures are up 2.5% to US\$70.33 per barrel.

Iron ore continued to by time around US\$105 after fully unwinding the initial response to comments earlier in the week from China's Politburo which appeared supportive of more forceful fiscal policy support.

### Australia:

RBA Deputy Governor, Andrew Hauser, spoke last night on the likely impacts to the Australian economy from a US-China trade war. Given details on Trump tariff's remain light, and the subsequent retaliation from impacted countries is unknown there are a wide array of possible scenarios which could be positive, negative or ambiguous for growth and inflation in Australia. In the circumstances, Hauser underscored that "it is important that we don't prejudge the implications of tariffs for policy but monitor developments closely and stand ready to respond appropriately as the facts emerge".

While Hauser's prepared remarks did not traverse questions of monetary policy, it was unsurprisingly a hot topic during the subsequent Q&A. The responses were largely played with a straight bat, however, a particularly pointed question about the RBA's change in guidance and the accompanying market reaction did elicit some additional colour.

Hauser remarked that it's likely the RBA would have altered its guidance in the same fashion even if there had been no



data during the intermeeting period, despite adding that weak National Accounts did obviously support the change. Interestingly, there was also what appeared to be an endorsement of revised market pricing, though it was unclear whether this was just a confirmation that the market response didn't surprise the RBA.

## **United States:**

The consumer price index (CPI) met expectations in November. Headline and core prices both gained 0.3% in the month for respective annual rates of 2.7% and 3.3%, little changed from October.

Core goods prices tick up 0.3% after a lengthy period of disinflation/deflation. However, this result looks to largely be attributable to strong growth in used car and truck prices as vehicles are replaced following recent severe weather events. Shelter inflation ticked down in November to 0.3%, and transportation costs were flat. Medical services inflation remains elevated given persistent growth in input costs for the sector.

While the data reiterates that significant policy restrictiveness is no longer needed, supporting a rate cut next week, signs of stalling disinflation progress will be gleaned at closely to assess just how quickly the Fed can ease policy settings through 2025.



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