13 December 2024

MORNING REPORT

Today's economic developments and market movements.

Key themes

The ECB cut by another 25bps as expected while the Swiss National Bank made a 50bps cut. Attention now turns to the US Fed next week, with the market fully pricing in another 25bps cut. The focus will be on guidance and whether the stronger than expected US producer prices will see the Fed up the ante on its cautions rhetoric, bringing into focus the pace of future rate cuts.

US equities drifted lower with the rally in early trade fading following the hotter than expected US producer price read.

US bond yields and the US dollar index were higher. The Aussie retraced the gains made following the jobs report. Aussie yields continued to drift higher overnight. The chances of a February cut have fallen to around 50% (from 66% before the yesterday's jobs report), while the first-rate cut has now been fully priced in by May.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	60.9	0.8%
AUD/USD	0.6363	-0.1%
AUD/JPY	97.13	0.0%
AUD/GBP	0.5023	0.5%
AUD/NZD	1.1040	0.3%
AUD/EUR	0.6080	0.2%
AUD/CNH	4.6307	-0.1%
AUD/SGD	0.8574	0.1%
AUD/HKD	4.9474	-0.1%
AUD/CAD	0.9044	0.3%
EUR/USD	1.0465	-0.3%
USD/JPY	152.65	0.1%
USD Index	107.00	0.3%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.37	0.01
90 day BBSY	4.50	0.01
180 day BBSY	4.65	0.00
1 year swap	4.09	0.09
2 year swap	3.87	0.12
3 year swap	3.81	0.13
4 year swap	3.82	0.12
5 year swap	3.87	0.12
6 year swap	3.93	0.11
7 year swap	4.00	0.11
8 year swap	4.07	0.11
9 year swap	4.13	0.11
10 year swap	4.32	0.10

Equities	Close	Change
S&P/ASX 200	8,330	-0.3%
S&P 500	6,060	-0.4%
Japan Nikkei	39,849	1.2%
Hang Seng	20,397	1.2%
Euro Stoxx 50	4,966	0.1%
UK FTSE100	8,312	0.1%
VIX Index	13.76	1.3%

Commodities	Current	Change
CRB Index	293.27	-0.1%
Gold	2682.71	-1.3%
Copper	9081.07	-0.3%
Oil (WTI futures)	70.24	-0.1%
Coal (coking)	204.50	0.0%
Coal (thermal)	133.00	0.4%
Iron Ore	104.60	1.4%
ACCU	37.68	-1.8%

Government Bond Yields	Close	Change
Australia		
3 year bond	3.83	0.11
10 year bond	4.26	0.08
United States		
3-month T Bill	4.22	-0.04
2 year bond	4.19	0.04
10 year bond	4.33	0.06
Other (10 year yields)		
Germany	2.21	0.08
Japan	1.05	-0.02
UK	4.36	0.04

Sydney Futures Exchange	Current	Change
10 yr bond	4.31	0.04
3 yr bond	3.86	0.01
3 mth bill rate	4.36	0.02
SPI 200	8,287	-0.7%

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.

Pat Bustamante
Senior Economist, Westpac Group
P: +61 468 571 786
E: pat.bustamante@westpac.com.au

Share markets:

US equities drifter lower after the stronger than expected producer price outcome triggered a selloff. The Nasdaq finished 0.7% in the red, while the Dow Jones finished 0.6% lower and the S&P 500 was 0.4% lower.

European stocks finished slightly higher, as the ECB delivered another rate cut and signalled further easing in 2025. The Euro Stoxx 50, the DAX and the FTSE 100 all closed 0.13% higher in a volatile session.

The ASX200 index slipped 0.3%, chalking up its third consecutive day of losses. The Index gave up early gains after a stronger-than-expected domestic labour market report dimmed chances for a February rate cut. Nine of the eleven sectors finished lower, led by interest rate sensitive sectors such as real estate stocks. Futures are pointing to a soft open this morning.

Interest rates:

Treasuries were sold off following the release of the US producer price data. The policy sensitive 2-year bond yield was 4 basis points higher at 4.14%. The US 10-year bond yield was 6 basis points higher 4.33%. Money markets are pricing in an 95% chance the Fed will cut by 25bps on 18 December. There are 78bpts of cuts priced in by the end of 2025, lower than the 82bps priced in last week.

The sell off in domestic treasuries continued in the futures market overnight. The 3-year futures yield increased 1 basis points to 3.86%, while the 10-year futures yield increased 4 basis points to 4.31%. The 3-year bond yield increased 11 basis points yesterday following the jobs report, while the 10-year yield increased 8 basis points.

European yields were lower across the curve, with UK 10-year Gilt yields down 5bps and the German 10-year yields down 7bps. Following the ECB's 25bps cut overnight, markets have priced in 5 more rate cuts over 2025.

Foreign exchange:

The US dollar was firmer rising to be above the 107 level, on the back of yield support. Fed guidance following next week's final meeting for the year will help determine how well supported the Greenback is in the near term. Recent data could see the Fed double down on its cautious and measured approach, supporting the Greenback.

The Aussie was broadly unchanged. After increasing to 0.643 following the jobs report, the rally lost steam during the New York session where attention turned to US producer prices. The Aussie was supported on the crosses, up 0.5% against the Pound and 0.3% against the NZD. The Aussie remains vulnerable to shifts in risk sentiment and softer real economic data, with more stimulus out of China and still resilient labour market conditions providing an offset.

The Japanese Yen was softer, with the USD/JPY increasing 0.1% to 152.65. Money markets are currently pricing in a 15% of a hike in December and are pricing in a full hike by May. The euro wobbled after the ECB cut rated and remains susceptible to downside risks given political instability and the ECB signalling further rate cuts.

Today's key data and events

Time	Event	Exp	Prev
12:00pm	AU RBA's Hunter – Speech		
9:00pm	EZ Industrial Production Oct	0.0%	-2.0%
10:50am	JN Tankan Manufacturers Index Q4	13	13
3:30pm	JN Industrial Production Oct		3.0%
8:30am	BusinessNZ Mfg PMI Nov		45.8
11:00am	UK GfK Consumer Sentiment Dec	-18	-18
12:30am	US Import Price Index Nov	-0.2%	0.3%

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.

Commodities:

Oil markets were broadly unchanged as crude contracts pared losses despite the International Energy Agency warning of a supply glut in 2025. The pledge from Chinese officials to provide more stimulus following the two-day Central Economic Work Conference in Beijing improved sentiment. The West Texas Intermediate (WTI) is trading at US$70.2 per barrel.

Iron ore jumped 1.4% following the pledge made by Chinese officials, to be trading at US$104.60.

Australia:

The November jobs report delivered some notable surprises, in part driven by shifting seasonality. The ABS noted in their media release: "In November, we saw a higher than usual number of people moving into employment who were unemployed and waiting to start work in October." There is a risk of an unwind in December. As such we assess the outcome as remaining broadly consistent with a 'normalisation' in labour market conditions.

The level of employment increased by +35.6k (0.2%) in November. The current pace of employment growth is easing back from a burst of strength over Q3, the three-month annualised pace slowing from 4.4%yr in September to 3.0%yr currently. The monthly gain in employment slightly outstripped population growth, driving a modest increase in the employment-to-population ratio, enough to round up to 64.4% (from 64.33% to 64.36%).

The participation rate dipped lower, from 67.1% to 67.0%, implying a measly +8.6k increase in the size of the labour force – the smallest increase recorded all year. In essence, there were very few new entrants in November, meaning employers could only satiate their labour demand via already-existing job seekers who were categorised as unemployed in October.

As a result, the unemployment rate fell sharply lower in November, from 4.1% to 3.9%, beating all expectations. Highlighting the sensitivity of unemployment to labour supply, if instead the participation rate had held flat from October – as per the consensus forecast – the unemployment rate would have held flat at 4.1%.

United States:

Wholesale or producer prices surprised to the upside in November rising 0.4% following an upwardly revised 0.3% gain in October (previously 0.2%). However, these outcomes were due to food and energy costs, with core PPI inflation as expected at 0.2%. Annual headline and core PPI inflation stands at 3.0%yr and 3.4%yr.

Initial jobless claims rose from 225k to 242k last week, still a very low level versus history.

China:

Policymakers signalled more public borrowing and spending in 2025 with a shift of policy focus to consumption. Top officials led by the President vowed to raise the fiscal deficit target next year in an announcement made following the two-day Central Economic Work Conference in Beijing. Policymakers also vowed to strengthen the social safety net with broad promises to bolster health care and pensions.

Eurozone:

The ECB delivered another 25bp cut at their December meeting as expected. Guidance given on inflation was confident, “headline inflation [seen] averaging 2.4% in 2024, 2.1% in 2025, 1.9% in 2026 and 2.1% in 2027”.

Lingering strength in domestic inflation was seen because of past inflation, not current supply or demand pressures. Greater caution was shown over the activity outlook, with the upside surprise of Q3 expected to be followed by a soft print in Q4, at least in part because policy is still restrictive and given the lags with which policy impacts the economy. Still, the staff expect GDP to grow around trend from 2025, at “1.1% in 2025, 1.4% in 2026 and 1.3% in 2027”. Underlying this view are gains for real income, the fading restrictiveness of policy and business investment responding to a need for greater capacity across the economy given persistent growth.

US trade policy, global growth overall and threats to European manufacturing competitiveness are risks to this view. The ECB will continue to cut in H1 2025, though on the forecasts at hand is likely targeting neutral not an outright expansionary policy setting.

Thank you for your readership over the past year.
This is the last Morning Report for 2024.
We will resume publishing this report in mid-January, 2025.

Corporate Directory

Westpac Economics / Australia

Sydney
Level 19, 275 Kent Street
Sydney NSW 2000
Australia

E: economics@westpac.com.au

Luci Ellis
Chief Economist Westpac Group

E: luci.ellis@westpac.com.au

Matthew Hassan
Head of Australian Macro-Forecasting
E: mhassan@westpac.com.au

Elliot Clarke
Head of International Economics
E: eclarke@westpac.com.au

Justin Smirk

Senior Economist
E: jsmirk@westpac.com.au

Pat Bustamante
Senior Economist
E: pat.bustamante@westpac.com.au

Mantas Vanagas
Senior Economist
E: mantas.vanagas@westpac.com.au

Ryan Wells

Economist
E: ryan.wells@westpac.com.au

Illiana Jain

Economist
E: illiana.jain@westpac.com.au

Jameson Coombs
Economist
E: jameson.coombs@westpac.com.au

Neha Sharma
Economist
E: neha.sharma1@westpac.com.au

Westpac Economics / New Zealand

Auckland
Takutai on the Square
Level 8, 16 Takutai Square
Auckland, New Zealand

E: economics@westpac.co.nz

Kelly Eckhold
Chief Economist NZ

E: kelly.eckhold@westpac.co.nz
Michael Gordon
Senior Economist

E: michael.gordon@westpac.co.nz
Darren Gibbs
Senior Economist

E: darren.gibbs@westpac.co.nz

Satish Ranchhod
Senior Economist

E: satish.ranchhod@westpac.co.nz

Paul Clark
Industry Economist

E: paul.clarke@westpac.co.nz

Westpac Economics / Fiji

Suva
1 Thomson Street
Suva, Fiji

Shamal Chand

Senior Economist
E: shamal.chand@westpac.com.au

IQ

westpaciq.com.au

DISCLAIMER

Things you should know

We respect your privacy: You can view our privacy statement at Westpac.com.au. Each time someone visits our site, data is captured so that we can accurately evaluate the quality of our content and make improvements for you. We may at times use technology to capture data about you to help us to better understand you and your needs, including potentially for the purposes of assessing your individual reading habits and interests to allow us to provide suggestions regarding other reading material which may be suitable for you.

Disclaimer

This information has been prepared by Westpac and is intended for information purposes only. It is not intended to reflect any recommendation or financial advice and investment decisions should not be based on it. This information does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter into a legally binding contract. To the extent that this information contains any general advice, it has been prepared without taking into account your objectives, financial situation or needs and before acting on it you should consider the appropriateness of the advice. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision. This information may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure this information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of this information, or otherwise endorses it in any way. Except where contrary to law, Westpac Group intend by this notice to exclude liability for this information. This information is subject to change without notice and none of Westpac or its related entities is under any obligation to update this information or correct any inaccuracy which may become apparent at a later date. This information may contain or incorporate by reference forward-looking statements. The words "believe", "anticipate", "expect", "intend", "plan", "predict", "continue", "assume", "positioned", "may", "will", "should", "shall", "risk" and other similar expressions that are predictions of or indicate future events and future trends identify forward-looking statements. These forward-looking statements include all matters that are not historical facts. Past performance is not a reliable indicator of future performance, nor are forecasts of future performance. Whilst every effort has been taken to ensure that the assumptions on which any forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from any forecasts.

Conflicts of Interest: In the normal course of offering banking products and services to its clients, the Westpac Group may act in several capacities (including issuer, market maker, underwriter, distributor, swap counterparty and calculation agent) simultaneously with respect to a financial instrument, giving rise to potential conflicts of interest which may impact the performance of a financial instrument. The Westpac Group may at any time transact or hold a position (including hedging and trading positions) for its own account or the account of a client in any financial instrument which may impact the performance of that financial instrument.

Author(s) disclaimer and declaration: The author(s) confirms that no part of his/her compensation was, is, or will be, directly or indirectly, related to any views or (if applicable) recommendations expressed in this material. The author(s) also confirms that this material accurately reflects his/her personal views about the financial products, companies or issuers (if applicable) and is based on sources reasonably believed to be reliable and accurate.

Further important information regarding sustainability-related content: This material may contain statements relating to environmental, social and governance (ESG) topics. These are subject to known and unknown risks, and there are significant uncertainties, limitations, risks and assumptions in the metrics, modelling, data, scenarios, reporting and analysis on which the statements rely. In particular, these areas are rapidly evolving and maturing, and there are variations in approaches and common standards and practice, as well as uncertainty around future related policy and legislation. Some material may include information derived from publicly available sources that have not been independently verified. No representation or warranty is made as to the accuracy, completeness or reliability of the information. There is a risk that the analysis, estimates, judgements, assumptions, views, models, scenarios or projections used may turn out to be incorrect. These risks may cause actual outcomes to differ materially from those expressed or implied. The ESG-related statements in this material do not constitute advice, nor are they guarantees or predictions of future performance, and Westpac gives no representation, warranty or assurance (including as to the quality, accuracy or completeness of the statements). You should seek your own independent advice.

Additional country disclosures:

Australia: Westpac holds an Australian Financial Services Licence (No. 233714). You can access Westpac's Financial Services Guide here or request a copy from your Westpac point of contact. To the extent that this information contains any general advice, it has been prepared without taking into account your objectives, financial situation or needs and before acting on it you should consider the appropriateness of the advice.

New Zealand: In New Zealand, products and services are provided by either Westpac (NZ division) or Westpac New Zealand Limited (company number 1763882), the New Zealand incorporated subsidiary of Westpac ("WNZL"). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. WNZL is not an authorised deposit-taking institution for the purposes of Australian prudential standards. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address www.westpac.co.nz.

Singapore: This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients of this material in Singapore should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore.

U.S: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission ("CFTC") as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. The services and products referenced above are not insured by the Federal Deposit Insurance Corporation ("FDIC"). Westpac Capital Markets, LLC ('WCM'), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 ('the Exchange Act') and

Disclaimer continues overleaf ▶

member of the Financial Industry Regulatory Authority ('FINRA'). This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. Transactions by U.S. customers of any securities referenced herein should be effected through WCM. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.
The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person of WCM or any other U.S. broker-dealer under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.

UK and EU: The London branch of Westpac is authorised in the United Kingdom by the Prudential Regulation Authority (PRA) and is subject to regulation by the Financial Conduct Authority (FCA) and limited regulation by the PRA (Financial Services Register number: 124586). The London branch of Westpac is registered at Companies House as a branch established in the United Kingdom (Branch No. BR000106). Details about the extent of the regulation of Westpac's London branch by the PRA are available from us on request.

Westpac Europe GmbH ("WEG") is authorised in Germany by the Federal Financial Supervision Authority ('BaFin') and subject to its regulation. WEG's supervisory authorities are BaFin and the German Federal Bank ('Deutsche Bundesbank'). WEG is registered with the commercial register ('Handelsregister') of the local court of Frankfurt am Main under registration number HRB 118483. In accordance with APRA's Prudential Standard 222 'Association with Related Entities', Westpac does not stand behind WEG other than as provided for in certain legal agreements (a risk transfer, sub-participation and collateral agreement) between Westpac and WEG and obligations of WEG do not represent liabilities of Westpac.

This communication is not intended for distribution to, or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation. This communication is not being made to or distributed to, and must not be passed on to, the general public in the United Kingdom. Rather, this communication is being made only to and is directed at (a) those persons falling within the definition of Investment Professionals (set out in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order")); (b) those persons falling within the definition of high net worth companies, unincorporated associations etc. (set out in Article 49(2)of the Order; (c) other persons to whom it may lawfully be communicated in accordance with the Order or (d) any persons to whom it may otherwise lawfully be made (all such persons together being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this communication or any of its contents. In the same way, the information contained in this communication is intended for "eligible counterparties" and "professional clients" as defined by the rules of the Financial Conduct Authority and is not intended for "retail clients". Westpac expressly prohibits you from passing on the information in this communication to any third party.

This communication contains general commentary, research, and market colour. The communication does not constitute investment advice. The material may contain an 'investment recommendation' and/or 'information recommending or suggesting an investment', both as defined in Regulation (EU) No 596/2014 (including as applicable in the United Kingdom) ("MAR"). In accordance with the relevant provisions of MAR, reasonable care has been taken to ensure that the material has been objectively presented and that interests or conflicts of interest of the sender concerning the financial instruments to which that information relates have been disclosed.

Investment recommendations must be read alongside the specific disclosure which accompanies them and the general disclosure which can be found here. Such disclosure fulfils certain additional information requirements of MAR and associated delegated legislation and by accepting this communication you acknowledge that you are aware of the existence of such additional disclosure and its contents.

To the extent this communication comprises an investment recommendation it is classified as non-independent research. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and therefore constitutes a marketing communication. Further, this communication is not subject to any prohibition on dealing ahead of the dissemination of investment research.