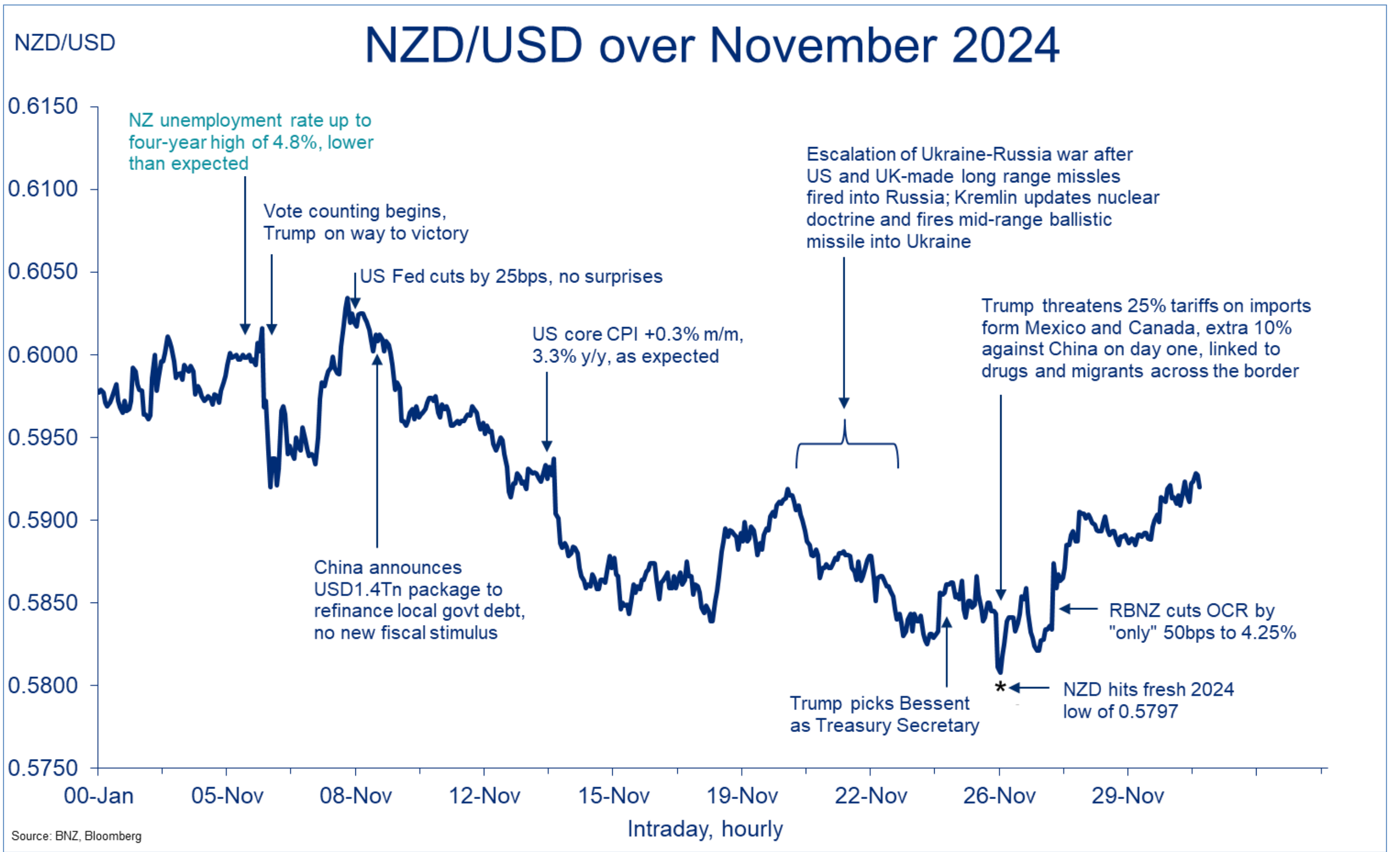
Research

Financial Markets Wrap

2 December 2024

Dollar dances to tune of Trump's triumph

- **USD broadly stronger in November, following Trump's victory and signs of a stronger for longer US economy**
- **NZD falls to a fresh 2024 low below 0.58 before finding support; ends down less than 1% for the month**
- **EUR underperforms, JPY the strongest of the majors; global equities up strongly to a record high; global rates lower**



Quick Outlook		November ranges
NZD/USD	Following a steep fall in Q4 so far, due for some consolidation and usual positive seasonal factors for December couldn't come at a better time to provide some support. From early next year, Trump's tariff policy will be crucial, with risks skewed to the downside for the NZD.	0.5800-0.6035
NZD/AUD	Another test below 0.90 didn't last long but our models continue to suggest fair value is well south of 0.90, given NZ's economic underperformance versus Australia and NZ-Australia rate spreads. Further tests below 0.90 expected over coming months.	0.8945 – 0.9100
NZD/GBP	NZD is much more at risk than GBP on Trump's tariff agenda, suggesting downside potential from early next year after some possible consolidation into year-end.	0.4595 – 0.4680
NZD/EUR	Both NZD and EUR are likely to see some downside spillover risk from Trump's tariff agenda. EUR also faces political risks over coming months. No strong conviction on direction over coming months from the current mid-range level.	0.5480 – 0.5635
NZD/JPY	Further BoJ tightening likely against the global trend over the coming year is yen supportive. Still look for downside in the cross over the medium-term but prone to volatile trading episodes.	88.5– 92.5

The election of Donald Trump as President and ongoing resilience in US economic data drove a paring of Fed rate cut expectations next year and a broadly stronger USD. The USD DXY index traded at a two-year high, while NZD/USD followed up October's hefty fall with another near 1% decline, after trading at a fresh 2024 low. Equity markets embraced Trump's victory with further strong gains, with the MSCI World Index up over 4% to a record high. Higher global rates in the first half of the month gave way and rates were modestly lower across most key markets for the month.

During November the market was focused on the US election, with the result being a decisive victory for President Trump as he won all seven of the closely fought battleground states. His Republican party also won slim majorities in the Senate and House, giving the party a clean sweep, easing the path to enacting Trump's policy agenda. In his victory speech, Trump said he would keep his election promises – tightening immigration, raising import tariffs, and cutting taxes are all high on his agenda.

Subsequent to the election, the market was interested in key Cabinet appointments. Appointees looked to be loyalists to Trump. The nomination of Scott Bessent to Treasury Secretary, who has deep familiarity with financial markets, was welcomed by the market. He is a known fiscal hawk, keen to bring the deficit under control.

The market was forced to make judgements about future policy, how much of Trump's agenda would be enacted and, in particular, whether Trump would proceed with his pre-election rhetoric to substantially lift import tariffs. Late in the month, Trump said that he would levy tariffs of 25% on all imports from Canada and Mexico, and an extra 10% tariff on Chinese goods, in a post on his social media site. He offered the chance for these countries to avoid tariffs by stopping the flow of drugs and illegal immigrants across the border.

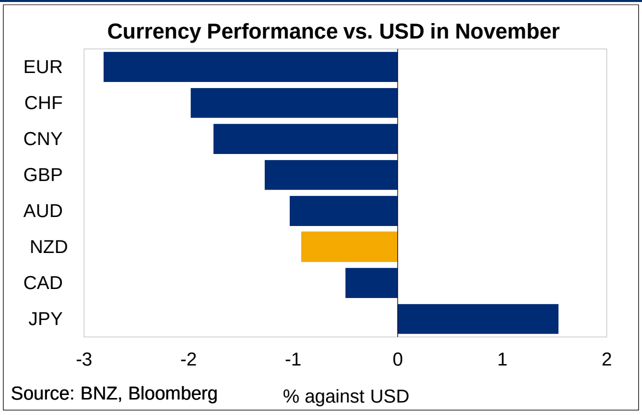
Tensions in the Ukraine-Russia war intensified. After President Biden gave the go ahead for Ukraine to use US-made long-range missiles, President Putin signed an updated nuclear arms doctrine which included a possibility of a nuclear response to aggression by non-nuclear states that is supported by other nuclear powers. Ukraine fired US and British made long-range missiles into Russia and Russia retaliated with the use of a new mid-range missile to send a warning message.

On the economic front US economic data tended to positively surprise, continuing the recent trend and playing to the narrative of economic resilience. Reflecting the dataflow, Citigroup's US economic surprise index rose to a nine-month high. An exception was a soft non-farm payrolls print of +12k for October, although recent Hurricanes were a contributing factor. The unemployment rate was steady at 4.1%.

Inflation data showed no further progress in getting inflation down. The core PCE deflator rose 0.3% m/m in October, following the same increase in September, driving the annual increase to a six-month high of 2.8% y/y.

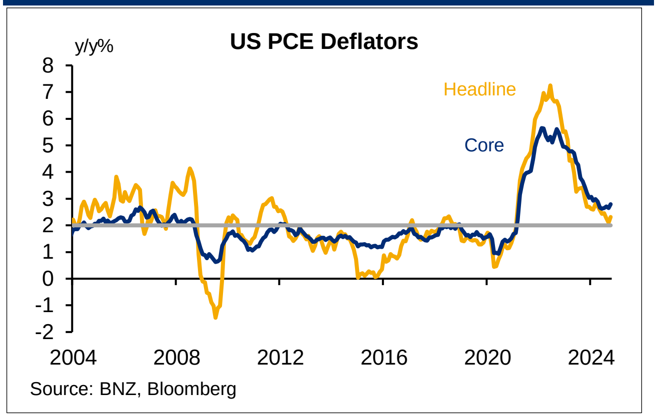
Coming soon after the soft payrolls report, the Fed delivered a 25bps cut to the Fed Funds rates as expected. Fed Chair Powell confirmed that an easing bias remained – with policy still considered restrictive and on a path to a more neutral stance – but the committee would take a meeting-by-meeting approach, leaving the door open to a possible pause in the easing cycle, depending on the data. He wasn't drawn into any discussion on the impact of the US election, other to say that in the near term the result would have no impact on monetary policy. Market reaction to the policy update was minimal.

USD broadly stronger in November; JPY the strongest



US economic data positively surprises over recent months

US core PCE inflation settles at 2.8% y/y



In addition to the market reacting to stronger US economic data through the month, the market continued to believe that under Trump's policy agenda there would be less scope for the Fed to ease policy over the coming year. This contributed to higher short-term interest rates, although Treasury yields reversed course in the second half of the month. The 10-year Treasury yield rose to as high as 4.5% in the week after the election, before closing the month down 12bps at 4.17%, with a flatter curve.

NZ labour market data painted a picture of falling employment and reduced labour force participation, with the net result being a lift in the unemployment rate to a four-year high of 4.8%. Meanwhile wage inflation was slightly weaker than expected, with the 0.6% q/q lift in private sector ordinary time earnings the weakest in over three years. Timely monthly data like the PMI, PSI, job ads, filled jobs, and card spending all conveyed a picture of the NZ economy remaining very weak. Forward looking indicators, particularly those in the ANZ business outlook survey, showed high optimism for the year ahead.

The RBNZ reduced the OCR by 50bp to 4.25%, in line with economists' estimates, although the market was pricing a chance of a larger 75bp cut. The Bank said if economic conditions continue to evolve in line with its projections, the Bank expects to be able to lower the OCR further early next year. Governor Orr commented that the modelled OCR track was consistent with a 50bps cut in February but the projection implied only an additional 25bps cut later in 2025. For the month, the NZ rates market showed a flattening bias, with the 2-year swap rate up 6bps to 3.71% and the 10-year rate down 10bps to 4.06%.

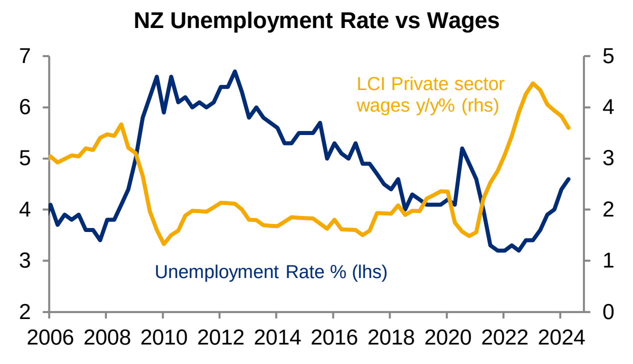
In currency markets, the USD was broadly stronger for a second consecutive month, a reflection of the Trump trade and data suggesting a stronger-for-longer US economy. The DXY index rose to a two-year high just over 108 before meeting some resistance and reversing course.

The NZD traded a high of 0.6038 on the 8th, in the aftermath of the US election and traded a 2024 low of 0.5797 on the 26th, following a period of the market fully digesting the implications of Trump's winning, his early Cabinet appointments, and the social media post noted earlier on import tariffs against Canada, Mexico and China. Following the NZD's near-6% slump in October, the currency fell less than 1% in November, closing the month around 0.5920.

NZD/AUD had a brief excursion below 0.90 for the first time since July, before closing the month flat around 0.9090, with higher NZ-Australia rate spreads contributing. The RBA update didn't budge from its mildly hawkish bias, repeating the message of its previous statement – that it needs to remain vigilant to upside risks to inflation and the Board is not ruling anything in or out. Updated inflation projections continue to suggest that it will be some time yet before inflation is sustainably in the target range. Australian labour market data remained consistent with tight conditions continuing, with the unemployment rate steady at 4.1%.

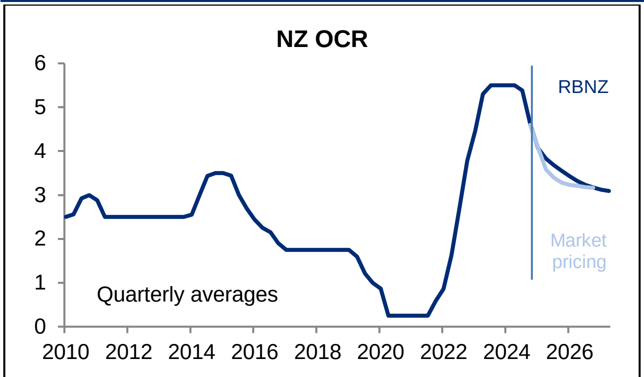
EUR was the weakest of the majors, reflecting a number of forces. The escalation of tensions in the Ukraine-Russia war was a factor, alongside a rising political risk premium, with the collapse of Germany's government and Chancellor Scholz calling an early election, and fears of a government crisis in France, with PM Barnier potentially facing a no-confidence vote as he pushed through policies to reduce the fiscal deficit. Weaker economic data in the Euro area – in particular the contrast in the fall in the composite PMI for the region against a lift in the US PMI contributed to poor sentiment for the euro. NZD/EUR rose nearly 2% for the month, taking it back to near the middle of its trading range for the year at 0.56.

NZ unemployment rate up to 4-year high



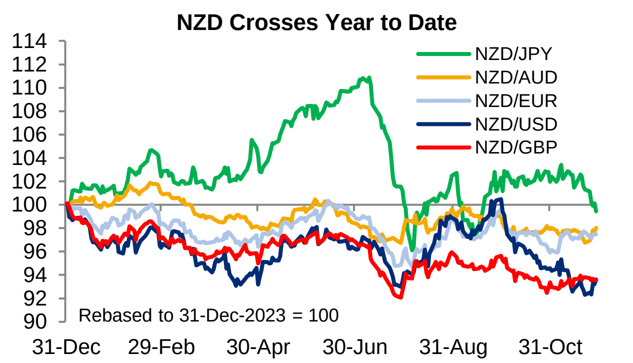
Source: BNZ, Bloomberg

NZ-monetary policy easing cycle well underway



Source: BNZ, Bloomberg

NZD now lower against all key majors for 2024 to date



Source: BNZ, Bloomberg

JPY was the strongest of the majors, in the face of economic data that supported the BoJ continuing along the path of normalising monetary policy, meaning higher rates against the backdrop of easier policy amongst its G10 peers. A lower

US 10-year rate was a contributing factor. USD/JPY rose as high as 156.75 before closing the month around 149.70. NZD/JPY fell almost 2½% to 88.6.

NZD/GBP drifted higher to 0.4650. UK CPI inflation data showed a pick-up and was stronger than expected. The BoE cut its policy rate by 25bps to 4.75% as expected, the second rate cut this cycle and BoE Governor conveyed a message of only a gradual path for rate cuts ahead. Working against easier monetary policy was looser fiscal policy, with the Office for Budget Responsibilities calling the UK Budget "one of the largest fiscal loosenings of any fiscal event in recent decades".

The Chinese yuan was weaker, but the PBoC took a more active role in controlling its descent in the second half. The much-anticipated announcement by China on fiscal easing came as a disappointment to the market, with focus on a debt swap arrangement for local governments, which will free up some funds to spend, but falling short of the sort of fiscal stimulus the market was hoping for, to direct money to households to spend.

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Monthly Performance Table

	end-Nov	end-Oct	Change		end-Nov	end-Oct	Change
Currencies				**NZ Rates**			
NZD/USD	0.5922	0.5977	-0.9%	OCR	4.25	4.75	-0.50
NZD/AUD	0.9091	0.9081	0.1%	NZ 90day BB	4.36	4.52	-0.16
NZD/EUR	0.5598	0.5491	1.9%	NZ 2yr swap	3.71	3.64	0.06
NZD/GBP	0.4650	0.4633	0.4%	NZ 5yr swap	3.74	3.77	-0.02
NZD/JPY	88.65	90.84	-2.4%	NZ 10yr swap	4.06	4.16	-0.10
NZD/CNY	4.290	4.254	0.8%				
TWI	69.7	69.6	0.1%	NZ Govt (5/26)	3.82	3.82	0.00
AUD/USD	0.6514	0.6582	-1.0%	NZ Govt (4/29)	3.92	3.97	-0.05
EUR/USD	1.0578	1.0884	-2.8%	NZ Govt (5/34)	4.38	4.47	-0.09
GBP/USD	1.2735	1.2899	-1.3%	NZ Govt (5/41)	4.82	4.88	-0.06
USD/JPY	149.72	152.02	-1.5%				
USD/CNY	7.25	7.12	1.8%	**Global 10 year bond rates**			
USD/CAD	1.4005	1.3935	0.5%	US	4.17	4.29	-0.12
USD DXY	105.74	103.98	1.7%	Canada	3.08	3.22	-0.13
Asia dollar index	90.63	91.94	-1.4%	UK	4.24	4.44	-0.20
				France	2.89	3.12	-0.23
Equity Markets				Germany	2.09	2.39	-0.30
MSCI AC Wrld, loc.	2,426	2,330	4.1%	Italy	3.28	3.65	-0.38
MSCI World, loc.	14,018	13,361	4.9%	Spain	2.79	3.09	-0.30
MSCI EM, USD	2,856	2,962	-3.6%	Portugal	2.53	2.79	-0.26
US S&P 500	6,032	5,705	5.7%	Ireland	2.39	2.71	-0.32
Euro STOXX 600	510.3	505.4	1.0%	Japan	1.04	0.94	0.10
Germany DAX	19,626	19,078	2.9%	Australia	4.34	4.50	-0.16
France CAC 40	7,235	7,350	-1.6%				
UK FTSE 100	8,287	8,110	2.2%	**Commodities (USD)**			
Aust S&P/ASX 200	8,436	8,160	3.4%	WTI Crude	68.00	69.26	-1.8%
Japan Topix	2,681	2,696	-0.5%	Brent Crude	72.94	73.16	-0.3%
China CSI 300	3,917	3,891	0.7%	R/B CRB Index	286.9	279.9	2.5%
NZX50	13,067	12,639	3.4%	Gold spot	2,643	2,744	-3.7%
Volatility: VIX	13.51	23.16	-41.7%	Silver spot	30.63	32.66	-6.2%
				Copper	408.1	434.0	-6.0%
3-mth Money Market Futures				Iron Ore	104.02	103.40	0.6%
NZD Mar-25	96.15	96.22	-0.07	Thermal coal	141.50	144.05	-1.8%
AUD Mar-25	95.72	95.72	0.00	Corn	433.0	426.0	1.6%
USD Mar-25	95.80	95.94	-0.14	Wheat	548.0	590.3	-7.2%
EUR Mar-25	97.81	97.64	0.17	SGX-NZX Dairy WMP	4,000	3,645	9.7%
GBP Mar-25	95.66	95.64	0.02	SGX-NZX Milk Price '25	10.10	9.45	6.4%
CAD Mar-25	97.04	97.07	-0.03				

Source: BNZ, Bloomberg

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