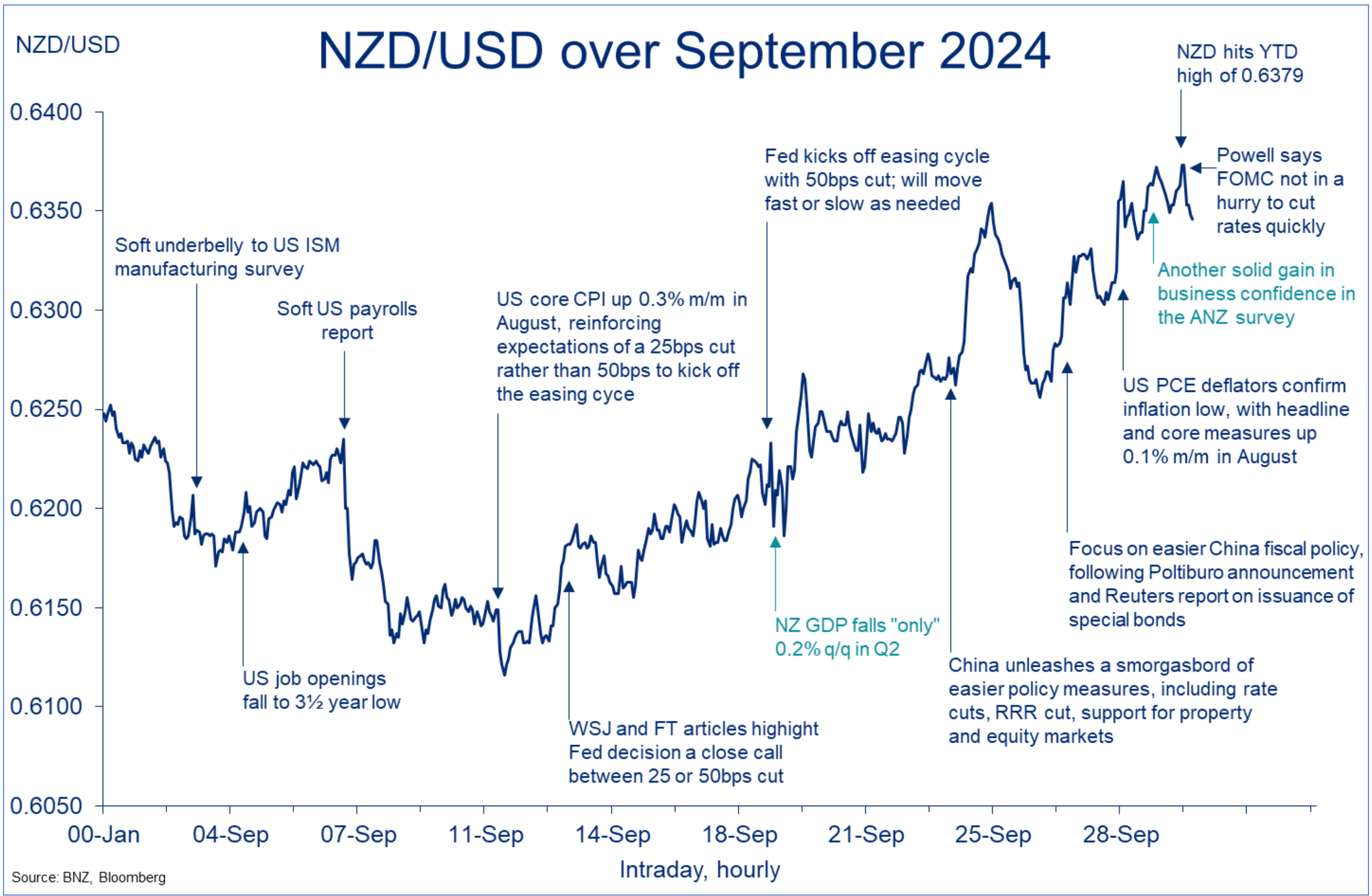
Research

# Financial Markets Wrap

1 October 2024

## NZD rises to a fresh 2024 high in September

- **The Fed opted to kick-start its easing cycle with a 50bps cut; China ramped up policy stimulus to drive an economic recovery**
- **High risk appetite and lower US rates drove a broadly weaker USD; most FX majors made fresh 2024 highs against the USD**
- **Rates curves steepened as the global easing cycle gained traction; global equities pushed up to a fresh record high**



Source: BNZ, Bloomberg

| | Quick Outlook | September ranges |
|---|---|---|
| **NZD/USD** | The combo of easier Fed policy and a more concerted effort by China to stimulate its economy are fundamentally supportive factors for the NZD ahead. The November US Presidential election remains a key risk event that could get in the way of further NZD appreciation. | 0.6110 – 0.6380 |
| **NZD/AUD** | Remains seemingly resistant to breaking lower, despite our models suggesting the cross rate is over-valued and ought to be trading sub-0.90. The value gap could close if the AUD outperforms as markets embrace the potential for a stronger economic outlook in China. | 0.9135 – 0.9270 |
| **NZD/GBP** | Further consolidation expected. Slightly more upside than downside risk over the next six months, given the extent of easing already priced into the NZ curve relative to the UK. | 0.4680 – 0.4760 |
| **NZD/EUR** | We continue to have little conviction on direction and continue to see a range-trading environment. | 0.5545 – 0.5715 |
| **NZD/JPY** | Further BoJ tightening likely against the global trend over the coming year is yen supportive. Still look for further downside in the cross over the medium-term but volatile trading conditions could linger into year-end. | 86.3– 92.3 |

Risk appetite was supported in September as the global monetary policy easing cycle gained traction, with the US Fed starting with a 50bps rate cut. Chinese policy makers stepped away from a piece-meal easing strategy to support the economy and instead offered a substantial package of policy measures designed to have a greater impact. The USD was broadly weaker, and most majors reached fresh highs for the year against the greenback. Rates curves bull-steepened while global equity markets edged up to fresh record highs.

Early in the month, key US economic data releases were soft, with a weak underbelly to the ISM manufacturing survey, nonfarm payrolls rising by just 142k in August, with 86k of downward revisions to the previous two months, and job openings falling to their lowest level since the start of 2021. There were increasing calls for the Fed to kick off the easing cycle with a larger 50bps rate cut. The US CPI rose 0.2% m/m, driving annual inflation down to a fresh 3½-year low of 2.5%, as expected. The core measure was slightly higher than expected, with CPI ex food and energy rounding up to 0.3%, seeing the annual increase steady at 3.2%.

After all the speculation, the Fed voted to kick off the easing cycle with a 50bps rate cut, taking the Fed Funds target range to 4.75-5%. Chair Powell noted that the Fed is not on any preset course and that it will continue making decisions meeting by meeting, adding that no one should look at the 50bps cut and say this is a new pace. The new projections showed the median member expects 50bps over the remaining two meetings this year, a further 100bps next year, and a terminal rate of 2.9%.

Markets embraced Powell's message that the 50bps cut was from a position of strength, not weakness, as the Fed attempts to engineer a soft-landing for the economy. Powell's performance in selling the message was a masterstroke, with the market not worried that an initial 50bps cut signalled economic concerns.

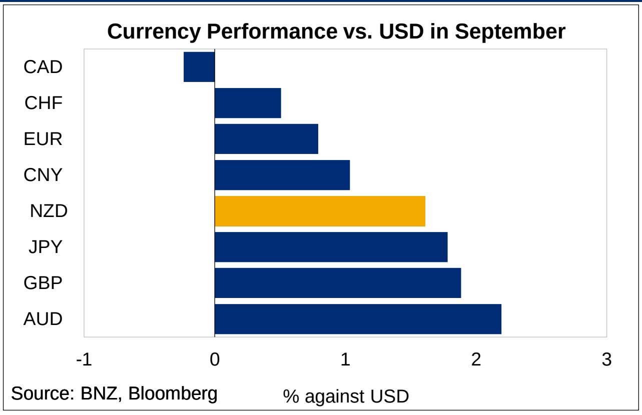
The beginning of the Fed easing cycle and 50bps cut encouraged a steeper US Treasuries curve, with the 2-year rate ending the month down 28bps against a 12bps fall in the 10-year rate to 3.78%. The 2s10s curve steepened to as much as 23bps, the steepest since mid-2022.

The Bank of Canada cuts its policy rate by 25bps for the third successive meeting to 4.25%, while the ECB cut its deposit rate by 25bps for a second time this cycle to 3.5% after skipping the July meeting. The ECB reaffirmed it wouldn't commit to a particular path for further rate cuts, with President Lagarde saying the bank will remain data dependent. She subsequently said she was open to a rate cut in October if data suggested a significant change in view from its baseline.

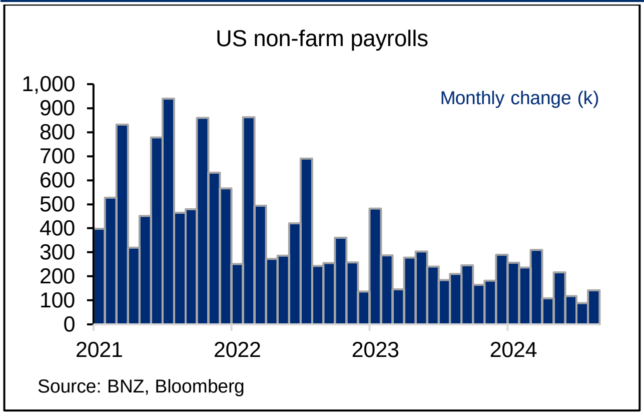
PMI data for the euro area for September were weaker across the board and below consensus estimates. The composite PMI fell 2.1pts to 48.9, the first sub-50 reading in seven months, not helped by Germany's manufacturing sector slumping further into contractionary territory and France's services sector contracting following the Olympics-related surge in activity. Furthermore, CPI data across France, Spain and Germany came in weak for September – 1.5%, 1,7%, and 1.8% respectively – resulting in the market pricing in additional easing from the ECB this year and contributing to lower rates across Europe.

The Bank of England kept policy steady, opting to skip a rate cut this meeting and guide to November for a second rate cut this cycle. The BoE's patient approach to cutting rates reflected some ongoing unease about residual inflation pressure, with the services sector component of the CPI running at 5.6% y/y. UK PMI data showed a more moderate fall compared to the euro area, with the composite index

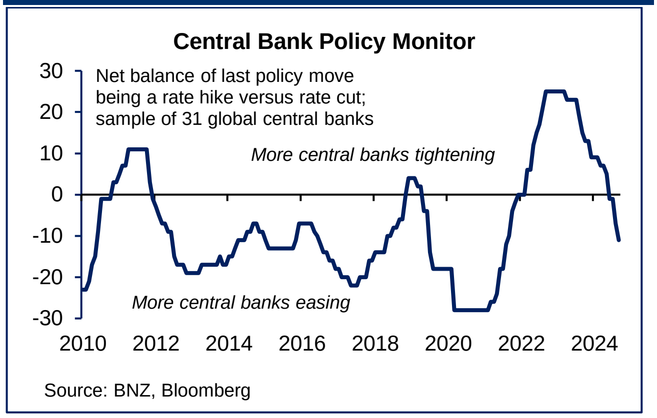
USD broadly weaker in September (alongside CAD)




US employment growth slowing




Global easing cycle now well underway



down less than a point at 52.9, this being consistent with recent GDP data showing slower growth momentum, after the recovery in the first half of the year.

In NZ, the economic calendar was light. Q2 GDP contracted by 0.2% q/q, slightly less than most expected, but consistent with the narrative that the economy has been rolling in and out of recession for the past couple of years, resulting in a building up of spare capacity and falling inflation pressures. August PMI data for manufacturing and services sector both showed second consecutive monthly increases, albeit from a deeply depressed level and still consistent with further economic contraction in Q3. Business and consumer confidence continued to rise, supported by lower interest rates.

Like the US, NZ rates curves steepened, with lower rates led by the short-end of the curve as the market priced in a more aggressive easing cycle. The 2-year swap rate closed the month down 37bps to 3.57% while the 10-year rate fell 12bps to 3.88%. At month-end the market was pricing in a high chance that the RBNZ would be cutting rates in 50bps clips over forthcoming meetings, with 135bps of cuts priced through the three meetings to February.

Turning to currency markets, the USD was broadly weaker, with the DXY USD index falling to a fresh low for the year and most major currencies recording fresh 2024 highs against the big dollar. Contributing to dollar weakness was the jumbo 50bps cut by the Fed and higher risk appetite. Only the CAD was weaker against the USD, given its strong link to the US, the market ramping up pricing for further Bank of Canada rate cuts and lower oil prices, which went against the grain of higher global commodity prices as the market anticipated higher oil supply ahead.

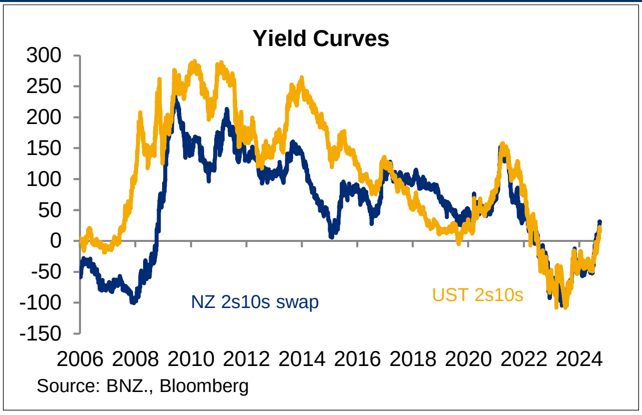
The NZD traded a low of 0.6107 on the 11th, in the wake of a slightly stronger US CPI print and a high of 0.6379 on the last trading day of the month, in the wake of China's announcements of a more concerted effort to stimulate its economy, and the stronger ANZ business outlook survey.

China's PBoC and other financial regulators offered a smorgasbord of policy easing measures, including cutting a wide range of interest rates, cutting banks' reserve requirement ratio (RRR), lowering minimum deposit requirements for buying second homes, and allowing funds and brokers to tap central bank money to buy equities. Governor Pan promised further cuts to the RRR later in the year and for key policy rates to decline further. Furthermore, China's Politburo noted the need to "intensify countercyclical adjustments" through fiscal policy and made a pledge to support the property market. Reuters reported that the MoF plans to issue RMB 2 trillion (1.4% of GDP) worth of special government bonds to support easier fiscal policy, with half of that used primarily to boost consumption and half to help local governments tackle their debt problems.

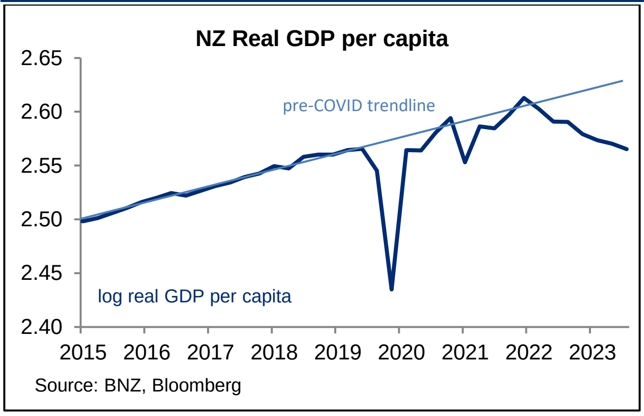
The policy measures greatly improve the outlook for China's economy and a stronger yuan spilled over into the NZD and AUD, whilst driving up global commodity prices. Copper and iron ore prices showed strong increases in the order of 9-10% for the month.

NZD/USD rose 1.6% for the month to 0.6350, a middle of the road performance compared to other FX majors. AUD/USD rose 2.2%, resulting in a modest fall for NZD/AUD to around 0.9180. The RBA left its cash rate at 4.35% and there was little change to guidance, with the Statement continuing to run the line that the Board would remain vigilant to upside risks to inflation and was not ruling anything in or out. However, Governor Bullock said that the Board didn't explicitly discuss a rate rise.

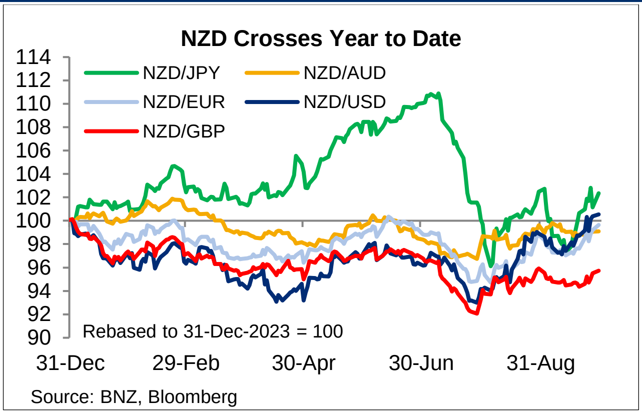
Steeper yield curve environment, led by lower short rates




NZ economy still contracting, more so on per capita basis




NZD back to close to beg-2024 levels except versus GBP



Trading in NZD/JPY remained choppy, with the cross trading a wide range again, between 86.3-92.3. The BoJ left rates unchanged at 0.25% and signalled it is in no hurry to proceed with further tightening. Governor Kazuo Ueda pushed back on the likelihood of an October rate hike and expressed concern over the market meltdown that followed July's rate increase. He also said that the 'upside risk to prices does appear to be easing given the recent yen strength'. NZD/JPY ended the month flat at 91.2, with late-month strength in the yen after a surprise win by Ishiba in the LDP leadership battle, a candidate sympathetic to the BoJ's tighter policy stance.

NZD/EUR rose 0.8% for the month, breaking up through 0.57, back towards the top end of its trading range this year. NZD/GBP showed further signs of consolidation and was down slightly to 0.4750.

jason.k.wong@bnz.co.nz

## Monthly Performance Table

| | end-Sep | end-Aug | Change |
|---|---|---|---|
| **Currencies** | | | |
| NZD/USD | 0.6349 | 0.6249 | 1.6% |
| NZD/AUD | 0.9183 | 0.9237 | -0.6% |
| NZD/EUR | 0.5702 | 0.5656 | 0.8% |
| NZD/GBP | 0.4747 | 0.4759 | -0.3% |
| NZD/JPY | 91.18 | 91.35 | -0.2% |
| NZD/CNY | 4.456 | 4.432 | 0.5% |
| TWI | 72.0 | 71.8 | 0.2% |
| AUD/USD | 0.6914 | 0.6765 | 2.2% |
| EUR/USD | 1.1135 | 1.1048 | 0.8% |
| GBP/USD | 1.3376 | 1.3129 | 1.9% |
| USD/JPY | 143.63 | 146.19 | -1.8% |
| USD/CNY | 7.02 | 7.09 | -1.0% |
| USD/CAD | 1.3525 | 1.3493 | 0.2% |
| USD DXY | 100.76 | 101.70 | -0.9% |
| Asia dollar index | 94.02 | 92.78 | 1.3% |
| **Equity Markets** | | | |
| MSCI AC Wrld, loc. | 2,356 | 2,310 | 2.0% |
| MSCI World, loc. | 13,482 | 13,278 | 1.5% |
| MSCI EM, USD | na | 2,901 | na |
| US S&P 500 | 5,762 | 5,648 | 2.0% |
| Euro STOXX 600 | 522.9 | 525.1 | -0.4% |
| Germany DAX | 19,325 | 18,907 | 2.2% |
| France CAC 40 | 7,636 | 7,631 | 0.1% |
| UK FTSE 100 | 8,237 | 8,377 | -1.7% |
| Aust S&P/ASX 200 | 8,270 | 8,092 | 2.2% |
| Japan Topix | 2,646 | 2,713 | -2.5% |
| China CSI 300 | 4,018 | 3,321 | 21.0% |
| NZX50 | 12,424 | 12,448 | -0.2% |
| Volatility: VIX | 16.73 | 15.00 | 11.5% |
| **3-mth Money Market Futures** | | | |
| NZD Mar-25 | 96.20 | 95.86 | 0.34 |
| AUD Mar-25 | 96.15 | 96.13 | 0.02 |
| USD Mar-25 | 96.49 | 96.25 | 0.24 |
| EUR Mar-25 | 97.72 | 97.39 | 0.33 |
| GBP Mar-25 | 95.97 | 95.85 | 0.12 |
| CAD Mar-25 | 97.18 | 96.67 | 0.51 |

| | end-Sep | end-Aug | Change |
|---|---|---|---|
| **NZ Rates** | | | |
| OCR | 5.25 | 5.25 | 0.00 |
| NZ 90day BB | 4.87 | 5.23 | -0.36 |
| NZ 2yr swap | 3.57 | 3.94 | -0.37 |
| NZ 5yr swap | 3.55 | 3.75 | -0.20 |
| NZ 10yr swap | 3.88 | 4.01 | -0.12 |
| NZ Govt (5/26) | 3.83 | 4.10 | -0.27 |
| NZ Govt (4/29) | 3.76 | 3.87 | -0.11 |
| NZ Govt (5/34) | 4.25 | 4.27 | -0.02 |
| NZ Govt (5/41) | 4.74 | 4.65 | 0.09 |
| **Global 10 year bond rates** | | | |
| US | 3.78 | 3.90 | -0.12 |
| Canada | 2.96 | 3.16 | -0.20 |
| UK | 4.00 | 4.01 | -0.01 |
| France | 2.92 | 3.02 | -0.11 |
| Germany | 2.12 | 2.30 | -0.18 |
| Italy | 3.45 | 3.70 | -0.25 |
| Spain | 2.92 | 3.13 | -0.21 |
| Portugal | 2.69 | 2.90 | -0.21 |
| Ireland | 2.47 | 2.67 | -0.20 |
| Japan | 0.85 | 0.89 | -0.04 |
| Australia | 4.00 | 3.97 | 0.03 |
| **Commodities (USD)** | | | |
| WTI Crude | 68.17 | 73.55 | -7.3% |
| Brent Crude | 71.77 | 78.80 | -8.9% |
| R/B CRB Index | 284.9 | 277.0 | 2.9% |
| Gold spot | 2,635 | 2,503 | 5.2% |
| Silver spot | 31.16 | 28.86 | 8.0% |
| Copper | 455.3 | 414.5 | 9.8% |
| Iron Ore | 109.81 | 101.08 | 8.6% |
| Thermal coal | 145.10 | 146.20 | -0.8% |
| Corn | 424.8 | 401.0 | 5.9% |
| Wheat | 584.0 | 551.5 | 5.9% |
| SGX-NZX Dairy WMP | 3,515 | 3,595 | -2.2% |
| SGX-NZX Milk Price '25 | 9.20 | 8.90 | 1.9% |

Source: BNZ, Bloomberg

# Contact Details

## BNZ Research

**Stephen Toplis**
Head of Research

**Doug Steel**
Senior Economist

**Jason Wong**
Senior Markets Strategist

**Stuart Ritson**
Senior Interest Rate Strategist

**Matt Brunt**
Economist

**Mike Jones**
BNZ Chief Economist

## Main Offices

**Wellington**
Level 2, BNZ Place
1 Whitmore Street
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

**Auckland**
80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

**Christchurch**
111 Cashel Street
Christchurch 8011
New Zealand
Toll Free: 0800 854 854