

Research Markets Today

1 August 2024

Events Round-Up

NZ: Dwelling consents (m/m%), Jun: -13.8 vs. -1.9 prev.
 NZ: ANZ activity outlook (net%), Jul: 16.3 vs. 12.2 prev.
 CH: Manufacturing PMI, Jul: 49.4 vs. 49.4 exp.
 CH: Non-manufacturing PMI, Jul: 50.2 vs. 50.2 exp.
 AU: Real retail sales (q/q%), Q2: -0.3 vs. -0.2 exp.
 AU: CPI (y/y%), Q2: 3.8 vs. 3.8 exp.
 AU: CPI trimmed mean (q/q%), Q2: 0.8 vs. 1.0 exp.
 AU: CPI trimmed mean (y/y%), Q2: 3.9 vs. 4.0 exp.
 JN: BOJ target rate (upper bd), Jul: 0.25 vs. 0.1 exp.
 GE: Unemployment rate (%), Jul: 6.0 vs. 6.0 exp.
 EC: CPI (y/y%), Jul: 2.6 vs. 2.5 exp.
 EC: CPI core (y/y%), Jul: 2.9 vs. 2.8 exp.
 US: ADP employment change (k), Jul: 122 vs. 150 exp.
 US: Employment Cost Index, Q2: 0.9 vs. 1.0 exp.
 CA: GDP (m/m%), May: 0.2 vs. 0.1 exp.
 US: Chicago PMI, Jul: 45.3 vs. 45 exp.
 US: Pending home sales (m/m%), Jun: 4.8 vs. 1.5 exp.
 US: Fed Funds rate (upper bd), Jul: 5.5 vs. 5.5 exp.

Good Morning

Markets have had a plethora of economic data and risk events to digest in the past 24 hours headlined by the FOMC. The US Federal Reserve left rates on hold, as was unanimously expected, but signalled it is getting closer to lowering policy rates. Global equity markets advanced led by technology stocks. The S&P is up almost 2% with equities in Europe and Asia also registering strong gains.

Global bond yields are lower outside of Japan where the central bank raised policy rates by more than expected. The US dollar is broadly weaker led by losses against the yen. Oil spiked higher after Hamas said its political leader was killed in an Israeli strike in Iran which raises the risk of a further escalation of regional hostilities.

In the statement accompanying the unchanged rates decision, the Fed said it is 'attentive to risks to both sides of its dual mandate'. This compares with previous wording which only focused on inflation risks. This implies a softening in stance and signals it is moving closer to lowering rates. However, the central bank said it is waiting for 'greater confidence' on inflation to cut rates and noted the unemployment rate has 'moved up but remains low'.

Market pricing for the September meeting is little changed with a 25bps rate cut fully priced.

Chair Powell didn't provide any explicit forward guidance in the press conference. He outlined a rate cut could be on the table at the September meeting and there is a sense that the committee is moving closer to cutting rates, but the Fed had not made a decision, and will depend on the 'totality' of the incoming data.

There were further signs of cooling in the US labour market. The employment cost index increased 0.9% in Q2, below expectations of a 1% rise, and slower than the 1.2% gain in Q1. Separately, ADP private payrolls increased 122k in July which was weaker than consensus estimates. However, the relationship with non-farm payrolls, released Friday night, has not been strong.

Euro-area inflation accelerated modestly in July. Headline CPI rose 2.6%, slightly higher than the 2.5% consensus estimate. The core rate was also marginally higher than expected at 2.9% versus a 2.8% forecast. There was limited reaction – the market continues to price a high likelihood of a 25bps September rate cut by the ECB.

The Bank of Japan (BoJ) increased rates by 15bps to 0.25% in a further normalisation of its ultra-easy monetary policy stance. The BoJ also revealed plans to reduce its bond purchases by half over a two-year period. The policy rate adjustment was larger than economist has expected but had been flagged ahead of time in Japanese media.

The yen was volatile immediately after the decision and ultimately gained following comments from Governor Ueda in the press conference that 'we still have some distance to reach the neutral rate range'. He also noted the weak yen was a factor for policy makers. JGB yields moved higher across the curve with the 10-year yields increasing 5bps to 1.04%.

US treasuries moved lower in yield initially supported by the labour market data and are little changed after the FOMC. 10-year yields fell 4bps to 4.10%, the lowest level since March. The US Treasury left its issuance of longer-term coupon debt unchanged for the second consecutive quarter and outlined that it doesn't expect an increase for several quarters.

The US dollar is generally weaker against G10 currencies. USD/JPY extended the recent move lower trading below 150. This is more than 10 yen lower than the July peak amid significant position unwinding. Japan Finance ministry figures revealed its recent intervention to support the yen totalled US\$36 billion which was in line with earlier estimates. The euro and pound are little changed against the dollar.

Alongside the yen, the Australasian currencies were among the best performing with both NZD and AUD gaining 0.8% against the US dollar. The NZD gained on European cross rates while NZD/JPY dipped below 89 at one point before recovering. After making strong gains following Australian CPI data yesterday, NZD/AUD was broadly stable near 0.9100.

It was a mixed session for NZ fixed income in the local session yesterday. Swap markets were little impacted by the sharp move lower in Australian rates after weaker than expected Q2 CPI data. 2-year swap rates closed 1 bp higher at 4.23% with a curve flattening bias. Government bonds ended lower in yield across the curve outperforming swaps. 10-year bonds closed down 6bps at 4.34%.

Australian 10-year bond futures are little changed overnight, suggesting limited directional bias for NZGB yields on the open. The market looks ahead to the weekly bond tender. New Zealand Debt Management is offering NZ\$500 million of nominal NZGBs today split across May-30 (\$500m), May-34 (\$150m) and Apr-37 (\$50m). NZDM

has continued to avoid tendering into the ultras, likely reflecting limited indicated demand from investors.

There is no domestic data today. The Bank of England meeting is a finely balanced decision with the market pricing slightly more than 50% chance of a 25bps cut. The consensus looks for the US manufacturing ISM to edge higher but remain in contractionary territory. US technology company heavyweight, Meta, also reports earnings after the market close.

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Coming Up

		Period	Cons.	Prev.	NZT
AU	Trade Balance	Jun	5000	5773	13:30
CH	Caixin China PMI Mfg	Jul	51.5	51.8	13:45
EC	Unemployment Rate	Jun	6.4	6.4	21:00
UK	Bank of England Bank Rate	Aug	5	5.25	23:00
US	Nonfarm Productivity	2Q P	1.8	0.2	00:30
US	Initial Jobless Claims	27 Jul	236	235	00:30
US	ISM Manufacturing	Jul	48.8	48.5	02:00

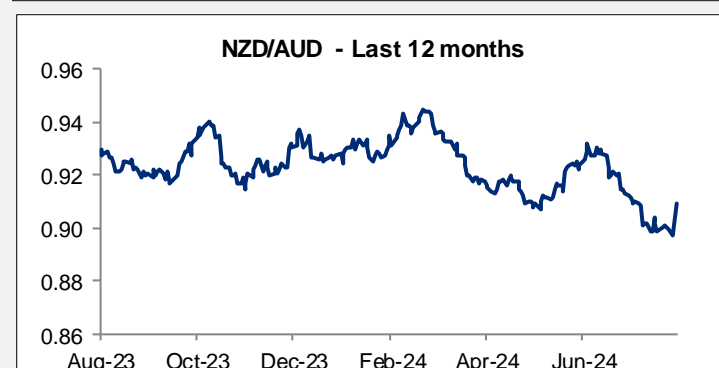
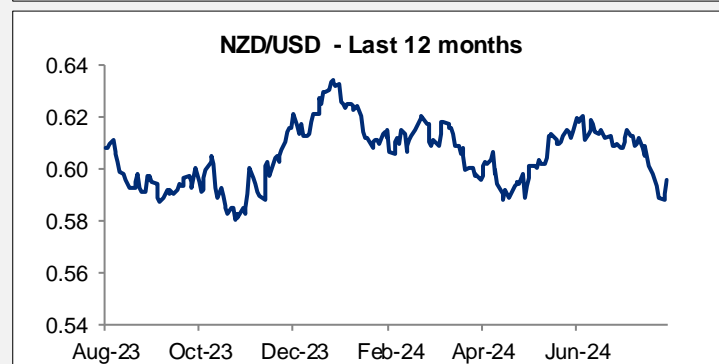
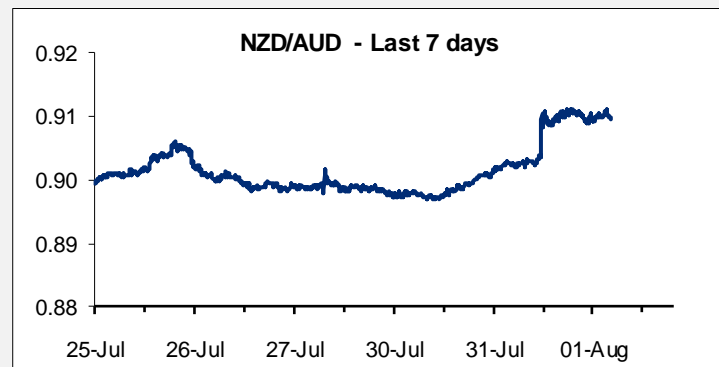
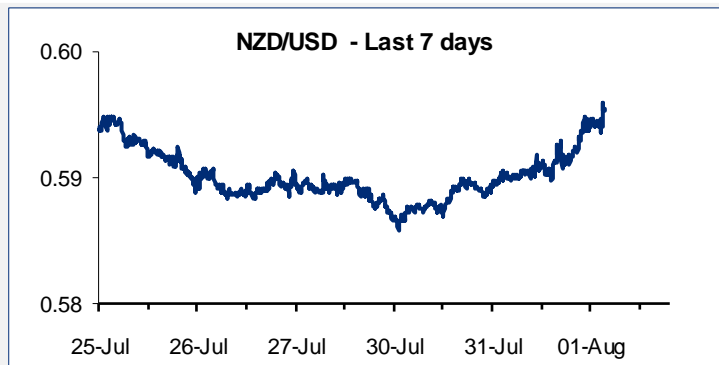
Source: Bloomberg, BNZ

Currencies							Equities				Commodities				
Global froces		Indicative overnight ranges (*)			Other FX		Major Indices				Price (Near futures, except CRB)				
	Last	% Day	Low	High		Last	% Day			Last	% Day	Net Day			
NZD	0.5954	+0.9	0.5906	0.5961	CHF	0.8792	-0.4	S&P 500	5,541	+1.9	20.7	Oil (Brent)	80.72	+2.7	
AUD	0.6546	+0.2	0.6487	0.6552	SEK	10.697	-0.6	Dow	41,179	+1.1	15.8	Oil (WTI)	78.02	+4.4	
EUR	1.0828	+0.1	1.0802	1.0849	NOK	10.902	-0.5	Nasdaq	17,673	+3.1	23.2	Gold	2430.0	+1.0	
GBP	1.2857	+0.2	1.2821	1.2860	HKD	7.813	-0.0	Stoxx 50	4,873	+0.7	9.0	HRC steel	704.0	+0.1	
JPY	150.46	-1.5	149.64	152.43	CNY	7.227	-0.2	FTSE	8,368	+1.1	8.7	CRB	274.7	-0.1	
CAD	1.3793	-0.4			SGD	1.337	-0.4	DAX	18,509	+0.5	12.5	Wheat Chic.	551.3	+0.4	
NZD/AUD	0.9096	+0.7			IDR	16,260	-0.2	CAC 40	7,531	+0.8	0.4	Sugar	18.94	-0.5	
NZD/EUR	0.5499	+0.8			THB	35.57	-0.9	Nikkei	39,102	+1.5	16.8	Cotton	67.98	-0.2	
NZD/GBP	0.4631	+0.7			KRW	1,371	-1.0	Shanghai	2,939	+2.1	-10.7	Coffee	229.2	-1.0	
NZD/JPY	89.58	-0.7			TWD	32.83	-0.1	ASX 200	8,092	+1.7	8.6	WM powder	3030	+0.5	
NZD/CAD	0.8212	+0.5			PHP	58.38	-0.5	NZX 50	12,405	+0.1	3.5	Australian Futures			
NZ TWI	69.99	+0.6						VIX Index	15.94	-9.9	+16.9	3 year bond	96.28	0.23	
Interest Rates											10 year bond 95.90 0.15				
Rates		Swap Yields			Benchmark 10 Yr Bonds		NZ Government Bonds			NZ BKBM and Swap Yields					
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day		Last	Chg		Last	Chg		
USD	5.50	5.51	4.17	3.68	USD	4.10	-0.04	15-May-26	4.34	-0.01	BKBM 1-mth	5.53	0.00		
AUD	4.35	4.49	3.95	4.21	AUD	4.12	-0.16	15-Apr-27	4.10	-0.01	BKBM 3-mth	5.46	0.00		
NZD	5.50	5.46	4.23	4.07	NZD	4.34	-0.06	15-May-28	4.01	-0.02	1 year	4.81	0.00		
EUR	3.75	3.63	2.87	2.59	GER	2.30	-0.04	20-Apr-29	4.03	-0.03	2 year	4.23	0.01		
GBP	5.25	5.30	4.26	3.68	GBP	3.97	-0.07	15-May-30	4.07	-0.04	3 year	3.98	0.00		
JPY	0.10	-0.03	0.52	1.00	JPY	1.06	0.05	15-May-31	4.15	-0.04	5 year	3.89	-0.02		
CAD	4.50	4.97	3.47	3.13	CAD	3.21	-0.02	15-May-32	4.25	-0.05	7 year	3.95	-0.03		
							NZ Inflation-Indexed Bonds		14-Apr-33	4.30	-0.06	10 year	4.07	-0.05	
							Sep-30	2.19	-0.05	15-May-34	4.34	-0.06	15 year	4.22	-0.05
							Sep-35	2.46	-0.05	15-May-35	4.41	-0.06			
							Sep-40	2.70	-0.05	15-May-37	4.55	-0.06			
										15-May-41	4.73	-0.07			
										15-May-51	4.78	-0.07			
										15-May-54	4.81	-0.07			

* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer
 Rates are as of: NZT 07:02
 Source: Bloomberg

NZD exchange rates

1/08/2024	7:02 am	Prev. NY close
USD	0.5954	0.5903
GBP	0.4631	0.4599
AUD	0.9096	0.9029
EUR	0.5499	0.5458
JPY	89.58	90.18
CAD	0.8212	0.8175
CHF	0.5235	0.5211
DKK	4.1031	4.0731
FJD	1.3535	1.3434
HKD	4.6517	4.6121
INR	49.85	49.42
NOK	6.4913	6.4665
PKR	165.70	164.28
PHP	34.75	34.62
PGK	2.3042	2.2844
SEK	6.3691	6.3520
SGD	0.7958	0.7923
CNY	4.3028	4.2744
THB	21.23	21.24
TOP	1.4059	1.3876
VUV	72.54	71.85
WST	1.6381	1.6200
XPF	65.67	64.99
ZAR	10.8438	10.8203



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	0.17	0.44
3 Months	0.10	0.62
6 Months	0.55	1.57
9 Months	0.93	4.29
1 Year	2.23	5.23

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-7.56	-6.85
3 Months	-19.79	-18.44
6 Months	-31.80	-28.86
9 Months	-37.18	-29.29
1 Year	-37.65	-27.49

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