

# Research Markets Today

2 August 2024

## Events Round-Up

AU: Trade balance (\$b), Jun: 5.6 vs. 5.0 exp.  
 CH: Caixin PMI manufacturing, Jul: 49.8 vs. 51.5 exp.  
 EA: Unemployment rate (%), Jun: 6.5 vs. 6.4 exp.  
 UK: Bank of England Bank Rate (%), Aug: 5.0 vs. 5.0 exp.  
 US: Nonfarm productivity (ann'lsd), Q2: 2.3 vs. 1.8 exp.  
 US: Unit labour costs (ann'lsd), Q2: 0.9 vs. 1.7 exp.  
 US: Initial jobless claims, wk to 27 Jul: 249 vs. 236 exp.  
 US: ISM manufacturing, Jul: 46.8 vs. 48.8 exp.

## Good Morning

Risk appetite fell after weaker than expected US economic data on the labour market and manufacturing sector. US equities have fallen significantly, and the US 10-year Treasury yield has fallen below 4%. The NZD shows little net change around 0.5950 but has fallen from an overnight high near 0.5980. GBP is the weakest of the majors after the BoE kicked off an easing cycle.

In the wake of the Fed's decision yesterday to hold policy, albeit open the door for a likely September rate cut, the market has reacted badly to weaker than expected US economic data and wondering whether the Fed is behind the curve.

Initial jobless claims rose 14k last week to 249k, their highest level in a year while continuing claims rose 33k to 1877k, their highest level in nearly three years, both figures notably higher than consensus. While the figures can be distorted around this time of year due to seasonal factors and Hurricane Beryl might also have had an impact, the data point to further weakening in the labour market. The key US employment report is released tonight.

The ISM manufacturing report for July was also very weak, with the headline index falling to 48.6 and falls in almost all the components, including new orders and a particularly meaty 6-point fall in the employment component to 43.4, the lowest reading in over four years and the worst reading since the GFC excluding COVID.

Non-farm productivity growth was stronger than expected, running at an annualised 2.3% pace in Q2, with the flip side being unit labour costs rising at a slow annualised pace of

0.9%. While this data can be volatile, unit labour costs correlate well over time with core CPI inflation.

With concern that the weaker inflation and labour market data point to the Fed being behind the curve, the market has priced in a more aggressive easing profile. The September meeting now has 30bps of cuts priced, with 80bps priced by year-end over the three remaining meetings. The 2-year rate is down 9bps to 4.17% and the 10-year rate is down 5bps to 3.98%, trading below 4% for the first time since February.

For some time, bad news on the US economy was taken as good news for US equities to the extent that it would prompt easier monetary policy, but with some fear that the Fed is too slow, bad news overnight has been treated as bad news for equities. The S&P500 is currently down 2%, led by a large fall across the tech sector, with the Nasdaq index down 3%. In another sign of fear, there hasn't been a rotation into smaller cap stocks, with the Russell 2000 index underperforming, with a fall of more than 3%.

In other key news, the Bank of England kicked off an easing cycle with a 25bps cut to the policy rate to 5.0%, as widely expected by economists but only 60% priced by the market. As expected, it was a finely balanced decision with a 5-4 vote by MPC to cut rates. The Bank said it was now appropriate to reduce slightly the degree of policy restrictiveness and it maintained the line that policy "will need to continue to remain restrictive for sufficiently long...". Governor Bailey didn't offer any view on the rate path ahead and said it will take a meeting-by-meeting approach, noting that they will be careful not to cut interest rates too quickly or too much.

The market sees the BoE's approach as similar to the ECB, with a likely pause at the next meeting in September, but November fully priced for the next rate cut. On the day, UK rates fell by more than peers, with 2-year and 10-year Gilt yields down 9-10bps against 6-8bps falls for German Bunds. GBP has been the weakest of the majors for the day, down 1% to 1.2730, while NZD/GBP is up for a fourth successive day, with a 0.9% gain to 0.4670.

The weaker US data only had a temporary impact on the USD and it maintained its gains seen during the Asia trading session. Risk-off sentiment sees CHF as the best performer but the NZD has also performed well under the circumstances, which we put down to a further adjustment

to NZD/AUD cross positions following the softer than expected underlying Australian CPI data on Wednesday. The AUD has fallen 0.8% to below 0.65 while the NZD is little changed around 0.5950, although down from the overnight high near 0.5980, just ahead of the US ISM manufacturing release. NZD/AUD has recovered further to 0.9160, remarkably now 0.7% higher compared to the level prevailing before the RBNZ's dovish pivot on 10 July.

JPY has been swinging in the aftermath of the BoJ's policy meeting, with USD/JPY falling towards 148.50 during the NZ trading session, rising back up towards 151 overnight and currently around 149.50. NZD/JPY has been swinging around and currently trades just below 89. EUR has fallen below 1.08 and NZD/EUR has recovered further, now up through 0.55.

In the oil market, concern about the demand outlook has outweighed concern about intensified war in the Middle East, with Brent crude down over 1%, returning below USD80 per barrel. Israel confirmed that it was responsible for killing Hama military commander Deif in Gaza in an air strike last month, but neither confirms nor denies the killing of Haniyeh, senior commander of Hizbollah, in Tehran this week. Hizbollah's leader said that Israel had crossed a "red line" and should expect a "certain" response.

Lower US Treasury yields post the Fed meeting dragged down NZ rates yesterday. The government bond tender also went well, with particularly strong bidding for the 2037 maturity. NZGB yields fell 5-7bps across the curve with a flattening bias, outperforming the 4-5bps fall seen across the swaps market. The global rally overnight should see lower NZ rates on the open, with the Australian 10-year rate down 5bps in yield since the NZ close.

On the economic calendar, the key economic release will be the US employment report tonight, where the market is expecting modest employment growth of 175k, a steady unemployment rate of 4.1% and average hourly earnings slipping to 3.7% y/y.

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### Coming Up

		Period	Cons.	Prev.	NZT
AU	Home loans value (m/m%)	Jun	0.1	-1.7	13:30
US	Change in nonfarm payrolls (k)	Jul	175	206	00:30
US	Unemployment rate (%)	Jul	4.1	4.1	00:30
US	Avg hourly earnings (m/m%)	Jul	0.3	0.3	00:30
US	Avg hourly earnings (y/y%)	Jul	3.7	3.9	00:30

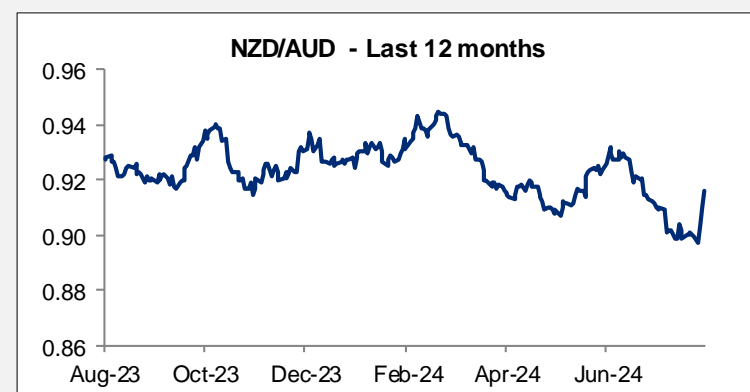
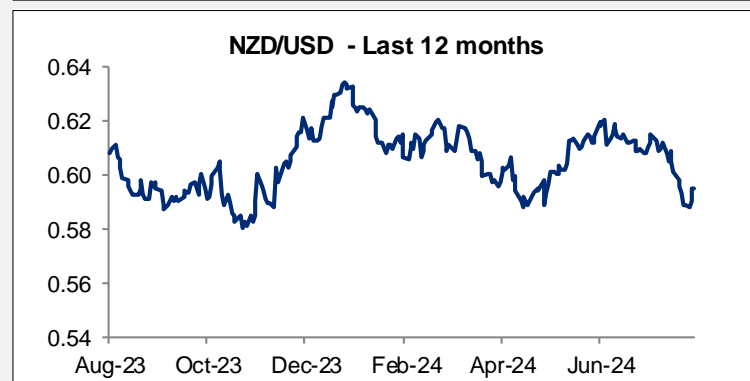
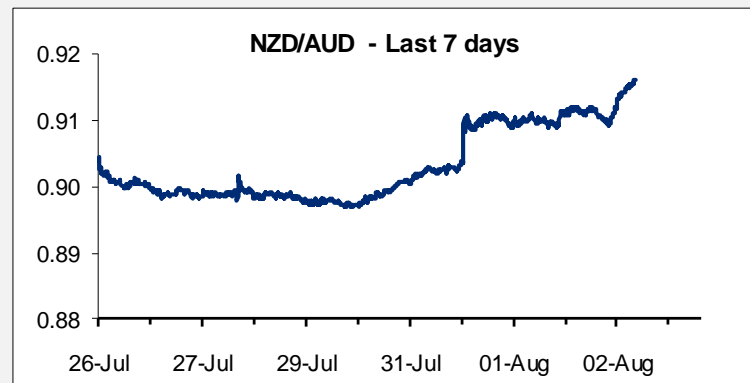
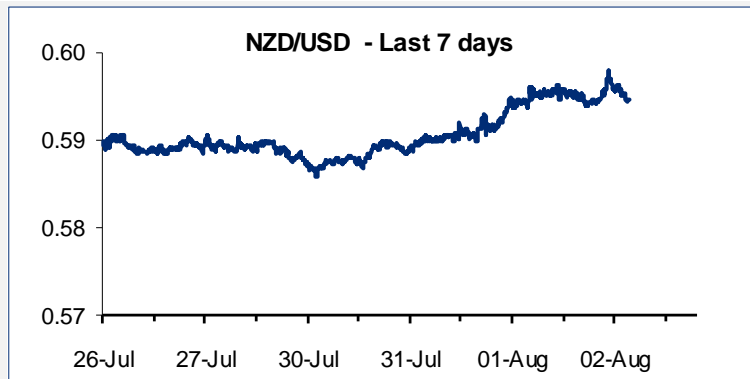
Source: Bloomberg, BNZ

Currencies							Equities				Commodities				
Global froces		Indicative overnight ranges (*)			Other FX		Major Indices				Price (Near futures, except CRB)				
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day				
NZD	0.5946	-0.1	0.5938	0.5981	CHF	0.8730	-0.6		S&P 500	5,415	-2.0	18.3	Oil (Brent)	79.74	-1.4
AUD	0.6492	-0.8	0.6489	0.6560	SEK	10.740	+0.4		Dow	40,145	-1.7	12.7	Oil (WTI)	76.55	-1.7
EUR	1.0784	-0.4	1.0778	1.0820	NOK	10.961	+0.5		Nasdaq	17,065	-3.1	19.5	Gold	2436.5	+0.4
GBP	1.2730	-1.0	1.2727	1.2840	HKD	7.815	+0.0		Stoxx 50	4,766	-2.2	8.1	HRC steel	688.0	-2.3
JPY	149.59	-0.3	149.43	150.89	CNY	7.245	+0.3		FTSE	8,283	-1.0	8.0	CRB	278.1	+1.2
CAD	1.3885	+0.6			SGD	1.337	+0.1		DAX	18,083	-2.3	11.3	Wheat Chic.	558.3	+1.1
NZD/AUD	0.9159	+0.7			IDR	16,237	-0.1		CAC 40	7,370	-2.1	-0.5	Sugar	18.50	-2.3
NZD/EUR	0.5514	+0.3			THB	35.60	+0.2		Nikkei	38,126	-2.5	16.6	Cotton	66.88	-1.9
NZD/GBP	0.4671	+0.9			KRW	1,369	-0.2		Shanghai	2,932	-0.2	-10.1	Coffee	227.3	-0.9
NZD/JPY	88.95	-0.3			TWD	32.76	-0.2		ASX 200	8,115	+0.3	10.3	WM powder	3035	+0.2
NZD/CAD	0.8256	+0.5			PHP	58.35	-0.1		NZX 50	12,488	+0.7	4.4	<b>Australian Futures</b>		
NZ TWI	70.07	+0.2						VIX Index	19.36	+18.3	+39.0	3 year bond	96.30	0.02	
												10 year bond	95.98	0.04	
Interest Rates							NZ Government Bonds				NZ BKBM and Swap Yields				
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	5.50	3.99	3.55	USD	3.97	-0.06	15-May-26	4.28	-0.06	BKBM 1-mth	5.53	0.00		
AUD	4.35	4.42	3.88	4.12	AUD	4.09	-0.03	15-Apr-27	4.04	-0.05	BKBM 3-mth	5.46	0.00		
NZD	5.50	5.46	4.19	4.01	NZD	4.27	-0.07	15-May-28	3.96	-0.06	1 year	4.79	-0.04		
EUR	3.75	3.65	2.80	2.54	GER	2.24	-0.06	20-Apr-29	3.97	-0.06	2 year	4.19	-0.04		
GBP	5.00	5.30	4.12	3.61	GBP	3.88	-0.09	15-May-30	4.01	-0.06	3 year	3.94	-0.04		
JPY	0.23	-0.03	0.53	0.98	JPY	1.04	-0.02	15-May-31	4.08	-0.07	5 year	3.83	-0.05		
CAD	4.50	4.97	3.36	3.03	CAD	3.11	-0.05	15-May-32	4.18	-0.07	7 year	3.89	-0.05		
								14-Apr-33	4.23	-0.07	10 year	4.01	-0.05		
								15-May-34	4.27	-0.07	15 year	4.17	-0.05		
								15-May-35	4.34	-0.07					
								15-May-37	4.48	-0.07					
								15-May-41	4.66	-0.07					
								15-May-51	4.71	-0.07					
								15-May-54	4.74	-0.07					

\* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer  
 Rates are as of: NZT 06:59  
 Source: Bloomberg

**NZD exchange rates**

2/08/2024	6:59 am	Prev. NY close
USD	0.5946	0.5951
GBP	0.4671	0.4629
AUD	0.9159	0.9097
EUR	0.5514	0.5497
JPY	88.95	89.25
CAD	0.8256	0.8217
CHF	0.5191	0.5225
DKK	4.1142	4.1021
FJD	1.3483	1.3543
HKD	4.6469	4.6492
INR	49.78	49.83
NOK	6.5173	6.4920
PKR	165.74	165.62
PHP	34.69	34.73
PGK	2.3011	2.3030
SEK	6.3861	6.3653
SGD	0.7952	0.7951
CNY	4.3079	4.3006
THB	21.17	21.22
TOP	1.3974	1.4052
VUV	72.33	72.48
WST	1.6337	1.6374
XPF	65.71	65.64
ZAR	10.8735	10.8327



**NZD/USD Forward Points**

	BNZ buys NZD	BNZ sells NZD
1 Month	0.23	0.45
3 Months	-0.07	0.44
6 Months	-0.96	0.06
9 Months	-2.31	-0.09
1 Year	-4.45	-1.45

**NZD/AUD Forward points**

	BNZ buys NZD	BNZ Sells NZD
1 Month	-7.40	-6.94
3 Months	-19.68	-18.53
6 Months	-30.62	-28.02
9 Months	-35.24	-30.25
1 Year	-37.88	-30.07

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