

Research Markets Today

2 October 2024

Events Round-Up

NZ: QSBO exp. domestic trading, Q3: -2 vs -13 prev.
 NZ: Dwelling consents (m%), Aug: -5.3 vs. 26.4 prev.
 JN: Tankan large manufacturing ind., Q3: 13 vs. 12 exp.
 AU: Building approvals (m/m%), Aug: -6.1 vs. -4.3 exp.
 AU: Retail sales (m/m%), Aug: 0.7 vs. 0.4 exp.
 EC: CPI (y/y%), Sep: 1.8 vs. 1.8 exp.
 EC: CPI core (y/y%), Sep: 2.7 vs. 2.7 exp.
 US: JOLTS job openings (k), Aug: 8040 vs. 7693 exp.
 US: ISM manufacturing, Sep: 47.2 vs. 47.5 exp.

Good Morning

Geopolitical factors have outweighed economic data releases in their market impact overnight. Iran launched a missile attack against Israel, resulting in a typical market response, with much higher oil prices, lower equities and lower rates. Safe haven currencies have outperformed. The NZD is down nearly 1½% from this time yesterday, including a 0.6% fall overnight, with underperformance following a soft QSBO, which supports the case for a more front-loaded RBNZ rate cut cycle.

Rising geo-political risk in the Middle East took another leg up after a senior White House official said Iran is preparing to launch a ballistic-missile attack against Israel and that the US will help Israel defend itself against the expected strikes. This follows Israel's killing of Hezbollah's leader in Lebanon and Israel launching a ground offensive in Lebanon. Just after 5:30am NZ time, Israel's Defence Force said rockets from Iran had been fired at Israel, with the number at the time of writing said to be just over 100. Many missiles were intercepted, but there were some strikes. The IDF said there will be consequences to Iran launches.

Risk appetite immediately fell after the warning was made and has been sustained following the attack. The S&P500 is down more than 1% and the Nasdaq is down 1¾%, with IT stocks underperforming. Energy and Utilities are the only two sectors in positive territory. Oil prices are up in the order of 4%, with Brent crude trading with a USD74 handle.

The asset allocation out of equities and into safe-havens supported global rates markets. US Treasury yields are

down 3-5bps across the curve, with the 10-year rate at 3.74%, after trading a low of 3.69%. European 10-year rates are down in the order of 6-10bps.

Not surprisingly, the yen has been the strongest of the major currencies, with USD/JPY down 0.3% overnight to 143.80. The USD, CAD and CHF are the next strongest currencies. The risk-sensitive NZD and AUD have underperformed, down around 0.5-0.6% overnight, while since this time yesterday the NZD is down almost 1½%, with added weakness following the soft QSBO report yesterday (see below).

The NZD is currently trading around 0.6285 after an overnight low of 0.6265, with the AUD at 0.6880. The NZD is weaker on all the key crosses, with NZD/AUD sustaining its fall yesterday afternoon to 0.9135. NZD/JPY has been the biggest mover, down towards 90.

Economic data took a back seat to the geopolitical forces. The US ISM manufacturing composite was steady at 47.4 in August, close to consensus with some mixed components, with higher production and new orders offsetting falls in inventories and employment. Job openings unexpectedly rose 329k in August to a three-month high of 8040k, although the data can jump around a bit and it's too early to say that the downward trend has been arrested. The ratio of vacancies per unemployed held near a three-year low of 1.1 while the quits rate fell to a four-year low of 1.9%, suggesting people are less confident in their ability to find a new position.

After the earlier soft regional reports, euro area CPI inflation was in line at a three-year low of 1.8% y/y, driven down by lower energy costs, while the core increase was 2.7% y/y. Following the recent weakness in the PMI data, weaker inflation, ECB President Lagarde's nod to an October rate cut, and backed up by another GC member Olli Rehn, the market has almost fully priced a cut of 25bps for the next meeting.

New Japan PM Ishiba said that he wouldn't comment on interest rates but "I look forward to the BoJ keeping its current stance to help us beat deflation". This followed comments by his new Minister for Economic Revitalisation saying "I want the BoJ to judge things with caution...we absolutely mustn't do anything to cool the economy in any way for the time being...my thinking is that defeating deflation should be the top priority". While dovish sounding, they are generally consistent with market pricing

for a tepid tightening path – or withdrawal of monetary stimulus– for the BoJ over the coming year.

The GDT dairy auction price index rose 1.2%, with whole milk powder up 3% and skim milk powder down 0.6% and a wide mix of movements for other commodities. The index has been steadily rising over the past year and is up 27.5% y/y, with higher dairy farm incomes this season a welcome boost to the economy within the recessionary backdrop.

Yesterday, the QSBO conveyed a more depressing outlook than the ANZ survey, probably reflecting the shorter 3-month rather than 12-month look-ahead window. While confidence was notably higher, the activity and pricing indicators were consistent with weak economic conditions continuing and further disinflationary pressure.

BNZ Economics changed its central rate view to a front loading of RBNZ rate cuts from here, to bring the OCR down faster to a more neutral setting – two 50bps cuts for the final two meetings this year. This, alongside the data, contributed to lower NZ rates. After a lift in rates early in the session, NZGB and swap rates closed down marginally.

OIS rates moved lower, with the market pricing in about a 75% chance of the 50bps cut at next week’s meeting and 94bps priced the for two meetings overall. Today, the market will take the lead from the offshore move overnight, with Australia’s 10-year bond future down 4bps in yield terms since the NZ close.

In the day ahead the economic calendar is light. The US ADP private payrolls report will get some attention, but historically it has been a poor guide to the more important nonfarm payrolls report due at the end of the week. Focus will remain on developments in the Middle East and the scope of further escalation.

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Coming Up

	Period	Cons.	Prev.	NZT
EC Unemployment rate (%)	Aug	6.4	6.4	22:00
US ADP employment change (k)	Sep	125	99	01:15

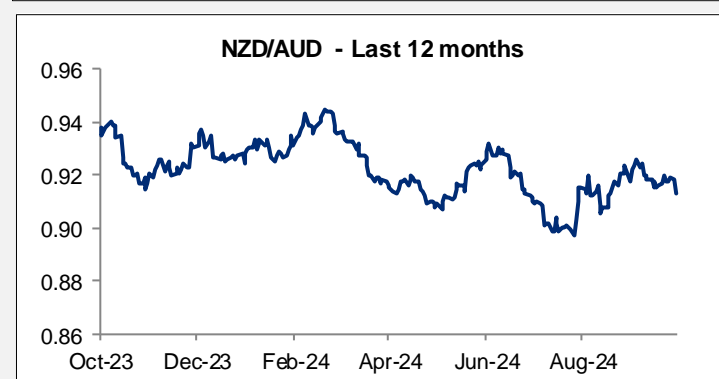
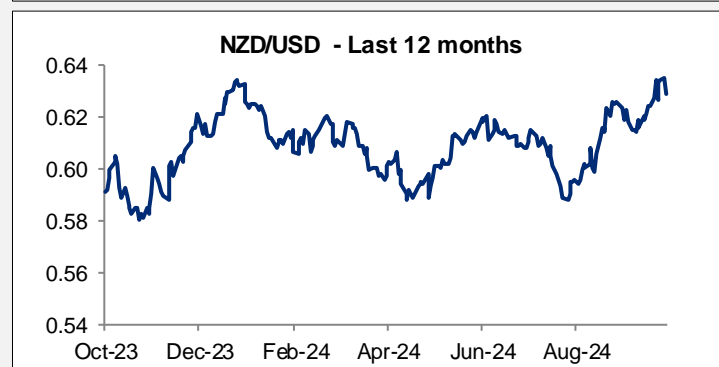
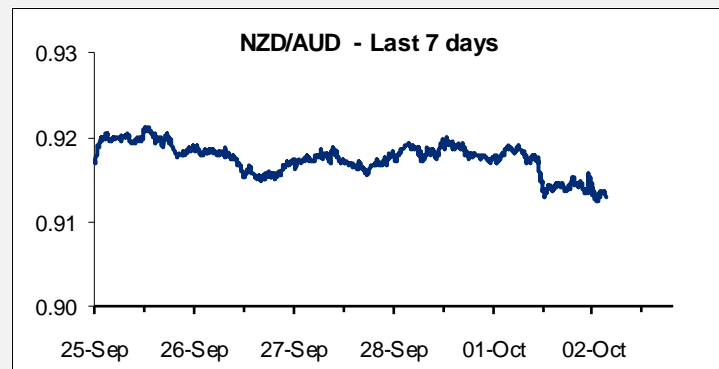
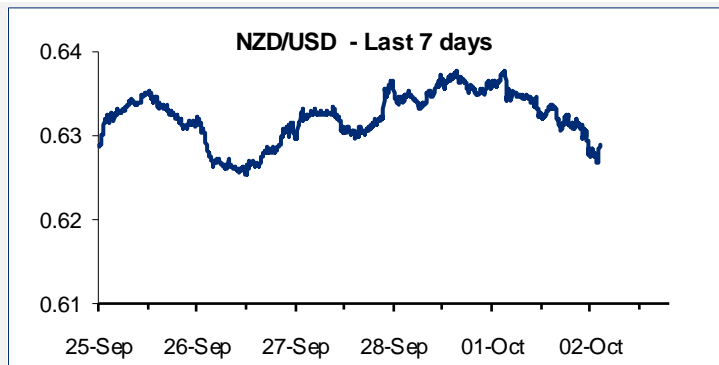
Source: Bloomberg, BNZ

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	% Year	Last	Net Day			
NZD	0.6288	-1.0	0.6265	0.6336	CHF	0.8476	+0.2	S&P 500	5,703	-1.0	33.0	Oil (Brent)	74.19	+3.4
AUD	0.6888	-0.4	0.6857	0.6931	SEK	10.278	+1.2	Dow	42,234	-0.2	26.0	Oil (WTI)	70.57	+3.5
EUR	1.1065	-0.6	1.1046	1.1137	NOK	10.615	+0.6	Nasdaq	17,939	-1.4	35.7	Gold	2660.3	+0.9
GBP	1.3272	-0.8	1.3237	1.3377	HKD	7.773	+0.0	Stoxx 50	4,954	-0.9	18.7	HRC steel	727.0	-1.1
JPY	143.81	+0.1	142.98	144.35	CNY	7.019	+0.1	FTSE	8,277	+0.5	8.8	CRB	284.9	-0.3
CAD	1.3499	-0.2			SGD	1.288	+0.2	DAX	19,213	-0.6	24.9	Wheat Chic.	620.0	+2.7
NZD/AUD	0.9129	-0.6			IDR	15,206	+0.4	CAC 40	7,574	-0.8	6.2	Sugar	22.97	+2.4
NZD/EUR	0.5683	-0.4			THB	32.54	+0.3	Nikkei	38,652	+1.9	21.7	Cotton	73.56	+0.0
NZD/GBP	0.4738	-0.2			KRW	1,326	+0.8	Shanghai	3,336	+8.1	7.3	Coffee	264.2	-2.3
NZD/JPY	90.43	-0.8			TWD	31.86	+0.6	ASX 200	8,209	-0.7	16.7	WM powder	3525	+0.3
NZD/CAD	0.8488	-1.2			PHP	56.16	+0.2	NZX 50	12,467	+0.3	10.9	Australian Futures		
NZ TWI	71.51	-0.7					VIX Index	19.31	+15.4	+10.2	3 year bond	96.51	-0.03	
											10 year bond	96.04	0.04	
Interest Rates						NZ Government Bonds				NZ BKBM and Swap Yields				
	Rates		Swap Yields		Benchmark 10 Yr Bonds		Last	Chg		Last	Chg			
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day						Last	Chg	
USD	5.00	4.85	3.41	3.27	USD	3.74	-0.04	15-May-26	3.81	-0.02	BKBM 1-mth	5.10	0.00	
AUD	4.35	4.43	3.63	4.03	AUD	4.01	0.04	15-Apr-27	3.64	-0.02	BKBM 3-mth	4.86	-0.01	
NZD	5.25	4.86	3.57	3.87	NZD	4.23	-0.01	15-May-28	3.67	-0.02	1 year	4.03	-0.04	
EUR	3.50	3.28	2.25	2.27	GER	2.04	-0.09	20-Apr-29	3.75	-0.01	2 year	3.57	-0.01	
GBP	5.00	5.30	3.87	3.57	GBP	3.94	-0.06	15-May-30	3.88	-0.01	3 year	3.46	-0.00	
JPY	0.23	-0.03	0.43	0.85	JPY	0.86	-0.01	15-May-31	3.99	-0.01	5 year	3.54	-0.00	
CAD	4.25	4.97	2.82	2.84	CAD	2.95	-0.01	15-May-32	4.10	-0.01	7 year	3.69	-0.01	
								14-Apr-33	4.18	-0.01	10 year	3.87	-0.01	
								15-May-34	4.23	-0.01	15 year	4.09	-0.01	
								15-May-35	4.33	-0.01				
								15-May-36	4.42	-0.01				
								15-May-37	4.52	-0.01				
								15-May-41	4.72	-0.01				
								15-May-51	4.82	-0.01				
								15-May-54	4.85	-0.01				

* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer
 Rates are as of: NZT 07:03
 Source: Bloomberg

NZD exchange rates

2/10/2024	7:03 am	Prev. NY close
USD	0.6288	0.6349
GBP	0.4738	0.4747
AUD	0.9129	0.9184
EUR	0.5683	0.5702
JPY	90.43	91.19
CAD	0.8488	0.8587
CHF	0.5330	0.5369
DKK	4.2380	4.2505
FJD	1.3811	1.3929
HKD	4.8877	4.9351
INR	52.71	53.21
NOK	6.6750	6.6970
PKR	175.07	176.98
PHP	35.31	35.58
PGK	2.4639	2.4879
SEK	6.4631	6.4508
SGD	0.8100	0.8158
CNY	4.4134	4.4513
THB	20.49	20.43
TOP	1.4297	1.4446
VUV	74.09	75.19
WST	1.6898	1.7064
XPF	67.44	67.89
ZAR	10.9437	10.9639



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	0.87	1.26
3 Months	1.66	2.26
6 Months	-0.17	0.83
9 Months	-0.10	2.02
1 Year	1.08	4.10

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-3.40	-2.65
3 Months	-5.59	-4.10
6 Months	-3.39	-0.63
9 Months	4.23	9.91
1 Year	14.98	22.91

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