

Research Markets Today

4 February 2025

Events Round-Up

AU: Retail sales (m/m%), Dec: -0.1 vs. -0.7 exp.
 AU: Real retail sales (q/q%), Q4: 1.0 vs. 0.8 exp.
 CH: Caixin PMI manufacturing, Jan: 50.1 vs. 50.6 exp.
 EC: CPI (m/m%), Jan: 2.5 vs. 2.4 exp.
 EC: CPI core (y/y%), Jan: 2.7 vs. 2.6 exp.
 US: ISM manufacturing, Jan: 50.9 vs. 50.0 exp.

Good Morning

The new week began with the fallout from President Trump's announcement Friday on tariffs on the three largest trading partners of the US, under the auspices of a national emergency regarding illegal immigration and drugs entering the US. As markets opened, the USD soared and equity futures plunged, while the US Treasuries curve flattened. These moves have shown some reversal overnight after Trump agreed to delay the tariffs on Mexico by a month.

While President Trump deemed "tariff" as the most beautiful word in the dictionary, the early market reaction was ugly. S&P500 futures opened the Asian trading session down 2% and major currencies plunged against the USD to fresh multi-year lows, with moves extending through to the NZ close. CAD and MXN weren't the only currencies affected, the EUR was also whacked as Trump said tariffs will "definitely happen" with the EU.

The key news overnight was a call between President Trump and President Sheinbaum which resulted in Mexico agreeing to send 10,000 National Guard officers to the border to stem the flow of fentanyl and migration into the US. On the basis of this, Trump agreed to delay the tariffs against Mexico for one month and agreed to speak frequently during that period. This resulted in some reversal of the market movements. It is fair to say that the situation remains fluid.

Trump and Canada PM Trudeau are expected to talk later today. Canada's initial response to the US tariffs was to give details of its first phase of retaliation, which will immediately impact CAD30b of US exports, with another CAD120b of US exports impacted in three weeks. Ontario's premier took additional measures, cancelling its contract with Musk's Starlink company and banning US companies from provincial contracts until the tariffs are removed.

China's Commerce Ministry issued a statement expressing strong dissatisfaction and vowing corresponding countermeasures and pledged to file a complaint at the WTO. Just after the NZ close, the WSJ reported that China would try to restore the Phase One deal of 2020, talk with the White House about areas China could buy more from the US, offer to make more investments in the US, and renew a pledge not to devalue the yuan to gain competitive advantage.

As far as markets stand as we go to print, the S&P500 is currently down "only" 0.8%, recovering from a 1.9% loss just ahead of the report of Mexico's one-month reprieve. The Euro Stoxx 600 index closed down 0.9%.

The USD DXY index is up ½%, paring about two-thirds of its gain at its peak. The NZD, EUR and AUD are down the most since last week's close, down 0.6-0.75%, with a smaller 0.3% loss for the CAD, GBP is flat and the yen is 0.3% stronger, reflecting its safe-haven characteristics.

The NZD traded a low of 0.5516 yesterday, just ahead of the October 2022 intraday low of 0.5512, and thereby maintaining 0.55 or thereabouts as a key support level. The noted WSJ article on China resulted in a turnaround in sentiment and further NZD recovery was made after the updated deal with Mexico, which saw the NZD temporarily regain the 0.56 handle and it currently sits just below that mark.

The CAD turnaround is remarkable, with the market likely assuming some deal that delays tariffs or that they do not prevail for long. USD/CAD almost reached 1.48 and it currently trades just below 1.46. The AUD traded a low of 0.6088 and it currently sits nearly a cent higher. With the NZD near the bottom of the daily leaderboard, key crosses are flat to lower, the largest move being a 1.2% fall against JPY to 86.5.

Chinese New Year holidays mean that we will have to wait until Wednesday for the PBoC's decision on where to fix the USD/CNY exchange rate. Cryptocurrencies were particularly whacked, with many down more than 20%, before a recovery ensued. Bitcoin traded down towards \$91k but has since recovered to over \$98k.

The reaction in rates markets has been mixed, with investors weighing the offsetting forces of the inflationary impact of tariffs against their growth-sapping attributes. The net result is flatter curves, with upside pressure on

short-term Treasury yields against downside pressure on longer rates. In an environment of higher inflation, there is less scope for the Fed to cut rates and, as such, market pricing for the Fed this year has been pared a little, with 39bps of cuts priced through to year-end. The 2-year rate is currently up 4bps to 4.24% while the 10-year rate is down 2bps to 4.52%.

In the oil market, the initial market reaction was one of higher prices, but the gain has been pared and prices are only up modestly for the day.

In economic news, the US ISM manufacturing index rose 1.7pts to 50.9, above the 50.0 consensus and the first reading above 50 since October 2022. It's hard to know how much of the increase reflected increased activity ahead of expected tariffs but what does seem clear is that a fresh salvo of tariffs is negative for the sector, and the market rightly played little attention to the survey. Euro area CPI inflation rose a tenth more than expected, with the headline at 2.5% y/y and the core at 2.7% y/y, however the data aren't expected to get in the way of further ECB easing.

In the domestic rates market, yields were lower across the board, with strong receiving interest in the swap market and against a backdrop of Australian rates falling. NZGB yields fell 6-7bps across the curve. The 2-year swap rate fell 8bps to 3.36%, a new low for the cycle while the 10-year rate fell 6bps to 4.03%. Since the NZ close, the Australian 10-year bond future has oscillated in an 8bps range and the yield is currently up marginally.

In the day ahead the market will remain focused on the fluid tariff situation. On the economic calendar, NZ building consents and the US JOLTS report will be released. During the NZ trading session, St Louis Fed President Musalem will be speaking.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Dwelling consents (m/m%)	Dec		5.3	10:45
US	Fed's Musalem gives welcoming remarks				12:30
US	JOLTS job openings (k)	Dec	8000	8098	04:00

Source: Bloomberg, BNZ

Currencies						Equities				Commodities				
FX Majors	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	0.5587	-0.9	0.5540	0.5609	CHF	0.9139	+0.3	S&P 500	5,987	-0.9	20.7	Oil (Brent)	75.68	-0.0
AUD	0.6173	-0.8	0.6120	0.6198	SEK	11.146	+0.5	Dow	44,407	-0.4	14.9	Oil (WTI)	72.65	+0.2
EUR	1.0279	-0.8	1.0213	1.0335	NOK	11.414	+0.6	Nasdaq	19,383	-1.4	24.0	Gold	2833.3	+0.7
GBP	1.2394	-0.0	1.2273	1.2436	HKD	7.793	+0.0	Stoxx 50	5,218	-1.3	12.1	HRC steel	742.0	+0.3
JPY	154.66	-0.4	154.02	155.72	CNY	7.245	+0.0	FTSE	8,584	-1.0	12.7	CRB	305.0	-0.5
CAD	1.4609	+0.5			SGD	1.363	+0.4	DAX	21,428	-1.4	26.7	Wheat Chic.	579.5	+1.2
NZD/AUD	0.9051	-0.3			IDR	16,448	+0.9	CAC 40	7,855	-1.2	3.5	Sugar	19.24	-0.6
NZD/EUR	0.5435	-0.1			THB	33.92	+0.6	Nikkei	38,520	-2.7	6.5	Cotton	65.49	-0.6
NZD/GBP	0.4508	-0.9			KRW	1,462	+0.5	Shanghai	3,251	-0.1	20.3	Coffee	382.2	+1.2
NZD/JPY	86.41	-1.3			TWD	33.07	+1.2	ASX 200	8,379	-1.8	8.8	WM powder	4100	-0.6
NZD/CAD	0.8162	-0.5			PHP	58.67	+0.5	NZX 50	12,810	-1.4	7.4	Australian Futures		
NZ TWI	67.18	-0.5						VIX Index	18.68	+13.7	+34.9	3 year bond	96.26	0.07
Interest Rates														
	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	4.50	4.85	4.09	4.07	USD	4.52	-0.02	15-Apr-27	3.57	-0.07	BKBM 1-mth	4.17	-0.05	
AUD	4.35	4.23	3.74	4.36	AUD	4.38	-0.05	15-May-28	3.71	-0.07	BKBM 3-mth	3.89	-0.03	
NZD	4.25	3.89	3.36	4.03	NZD	4.53	-0.06	20-Apr-29	3.84	-0.07	1 year	3.45	-0.06	
EUR	3.00	2.59	2.19	2.34	GER	2.39	-0.08	15-May-30	3.95	-0.07	2 year	3.36	-0.08	
GBP	4.75	5.30	4.05	3.97	GBP	4.49	-0.05	15-May-31	4.10	-0.06	3 year	3.41	-0.08	
JPY	0.48	-0.03	0.75	1.15	JPY	1.25	0.01	15-May-32	4.25	-0.06	5 year	3.60	-0.08	
CAD	3.00	4.97	2.41	2.68	CAD	2.96	-0.11	14-Apr-33	4.35	-0.06	7 year	3.79	-0.07	
								15-May-34	4.45	-0.06	10 year	4.03	-0.06	
								15-May-35	4.53	-0.06	15 year	4.28	-0.06	
								15-May-36	4.61	-0.06				
								15-May-37	4.71	-0.06				
								15-May-41	4.90	-0.06				
								15-May-51	5.07	-0.06				
								15-May-54	5.06	-0.06				

* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer
 Rates are as of: NZT 06:55
 Source: Bloomberg

NZD exchange rates

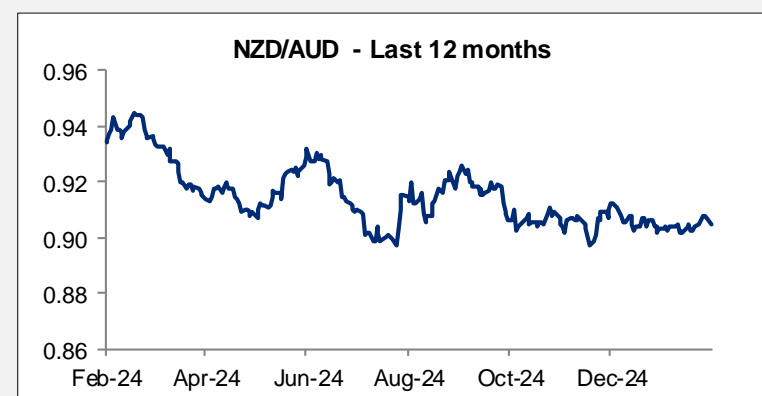
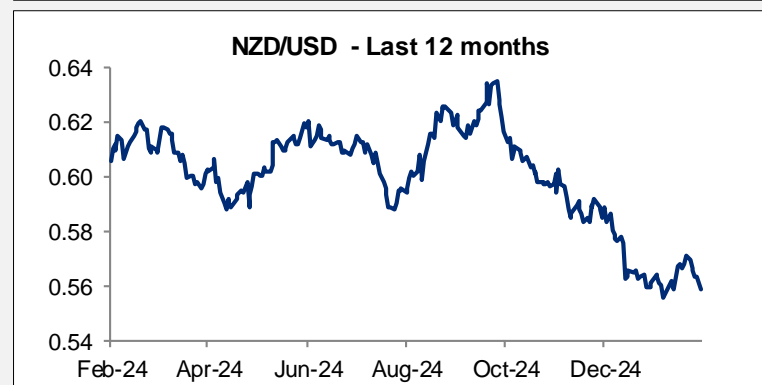
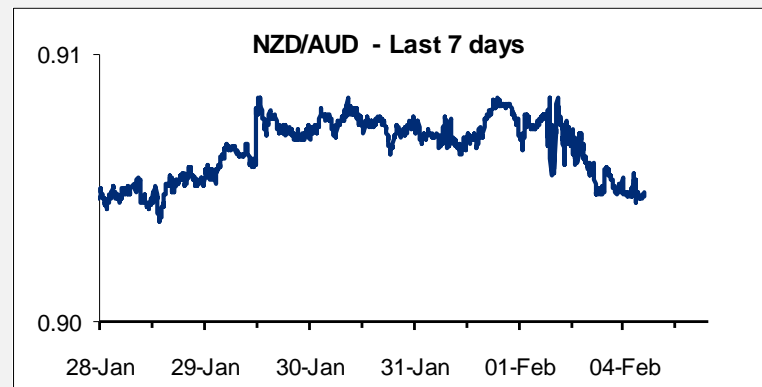
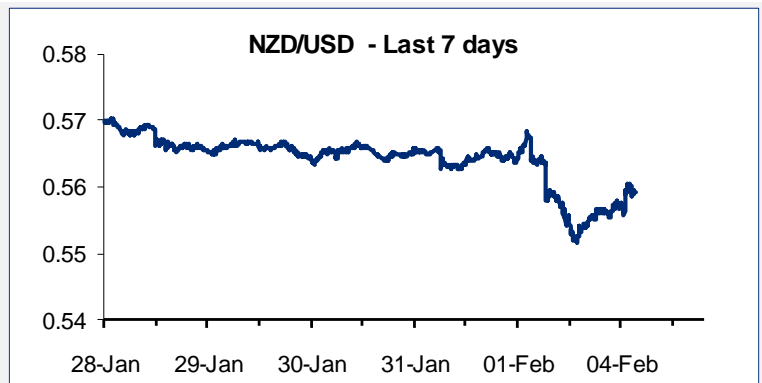
4/02/2025	6:55 am	Prev. NY close
USD	0.5587	0.5634
GBP	0.4508	0.4545
AUD	0.9051	0.9061
EUR	0.5435	0.5437
JPY	86.41	87.43
CAD	0.8162	0.8192
CHF	0.5106	0.5132
DKK	4.0553	4.0569
FJD	1.3140	1.3121
HKD	4.3540	4.3902
INR	48.72	48.80
NOK	6.3778	6.3910
PKR	155.88	157.16
PHP	32.77	32.89
PGK	2.2402	2.2590
SEK	6.2269	6.2522
SGD	0.7616	0.7644
CNY	4.0476	4.0796
THB	19.01	18.97
TOP	1.3505	1.3504
VUV	69.69	68.99
WST	1.5750	1.5813
XPF	64.36	64.70
ZAR	10.5016	10.5183

NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	1.64	1.93
3 Months	8.63	9.14
6 Months	22.44	23.44
9 Months	37.02	39.75
1 Year	51.66	54.66

NZD/AUD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	1.56	2.23
3 Months	8.62	9.87
6 Months	22.29	25.05
9 Months	35.88	41.68
1 Year	49.34	57.22



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