

# Research Markets Today

4 July 2024

## Events Round-Up

AU: Retail Sales (m/m%), May: 0.6 vs. 0.3 exp.  
 AU: Building Approvals (m/m%), May: 5.5 vs. 1.6 exp.  
 CH: Caixin China PMI Services, Jun: 51.2 vs. 53.4 exp.  
 US: ADP Employment Change, Jun: 150 vs. 162.5 exp.  
 US: Trade Balance, May: -75.1 vs. -76.5 exp.  
 US: Initial Jobless Claims, Jun 29: 238 vs. 235 exp.  
 US: ISM Services Index, Jun: 48.8 vs. 52.7 exp.

## Good Morning

The S&P powered to a fresh record high close, in a shortened trading session, ahead of the July 4 US holiday. A series of weaker than expected economic prints, headlined by services ISM, strengthened the case for Fed rate cuts this year. European equities also had a strong session with the Euro Stoxx gaining more than 1%. Global bond yields fell led by a rally in treasuries and the US dollar made broad based losses against G10 currencies.

Activity in the US services sector slumped to a 4-year low. The services ISM fell 5 points to 48.8, which was far weaker than all the estimates on the Bloomberg poll of economists. The new orders and employment subindices declined sharply into contractionary territory and prices paid edged lower. Survey respondents reported that in general, business was flat to lower, seemingly corroborating the sharp fall. However, services ISM has been volatile recently and contrasts with an alternative gauge, the S&P services PMI, which edged up to 55.3.

Weekly jobless claims increased to 238k signalling further easing in labour market momentum while continuing claims reached the highest level since late 2021. ADP reported private sector employers added 150k jobs which was modestly below expectations. The ADP has not been a reliable indicator for non-farm payrolls which is released Friday evening. The Citi US economic surprise index has fallen to 2-year lows.

The minutes for the June FOMC meeting outlined that policy makers require additional information, to provide greater confidence that inflation is moving towards the 2% target, before easing policy. The vast majority assess that economic activity is cooling and the current policy stance is

restrictive. Fed officials also noted that some inflation progress was evident.

US treasury yields fell sharply after the ISM data with the market pricing 48bps of Fed rate cuts by December. 10-year yields are down 8bps to 4.35% with a modest curve flattening bias. The MOVE index of implied treasury market volatility reached the highest level since April.

The Caixin services PMI in China fell to 51.2 from 54.0 which is the weakest level since October. The Caixin PMIs have been higher than the official readings recently. However, in aggregate the combined PMIs are pointing towards soft economic activity. The Peoples Bank of China lifted its yuan fixing to a new upcycle high, above 7.13, which will likely attract additional interest for CNH funded carry positions.

The US dollar, which declined initially, extended losses in following the economic data. EUR/USD advanced back towards 1.08 which is the midpoint of the narrow 2024 trading range. The yen underperformed amongst the majors and is little changed against the dollar having reversed earlier gains. NZD/USD surged above 0.6100, amid the weak dollar backdrop, and reached a high just short of 0.6130 before retracing. The NZD was stable on the major cross rates, except for NZD/JPY, which made a fresh multi-year high above 98.70.

There was a further steepening bias for NZ fixed income in the local session yesterday. 2-year swap rates declined 3bps to 4.89% retesting the June lows. 10-year rates increased 2bps to 4.54% with the 2y/10y curve back towards the highs for the year at -35bps. 10-year government bonds closed 3bps higher at 4.70%.

Australian 10-year bond futures are ~5bps lower in yield overnight, suggesting a downward bias to NZGB yields on the open.

In the first tender for the new fiscal year, New Zealand Debt Management is offering NZ\$500 million of nominal NZGBs today split across Apr-31 (\$225m), May-34 (\$175m) and May-41 (\$100m). In addition, NZ\$25 million of the Sep-40 inflation indexed bond (IIB) will be tendered. IIBs haven't been offered in a tender since April. Breakeven inflation has fallen sharply in the past month as nominal yields have declined.

It is a quiet economic calendar with no domestic releases and only second-tier international data. US markets are closed for Independence Day. The UK election takes place this evening. The result should be clear at some stage during the Asia time zone tomorrow. The opposition Labour party has a 20% lead in polling and should be fully discounted by markets.

		Period	Cons.	Prev.	NZT
AU	Trade Balance	May	6328	6548	13:30
GE	Factory Orders (m/m%)	May	0.5	-0.2	18:00

Source: Bloomberg, BNZ

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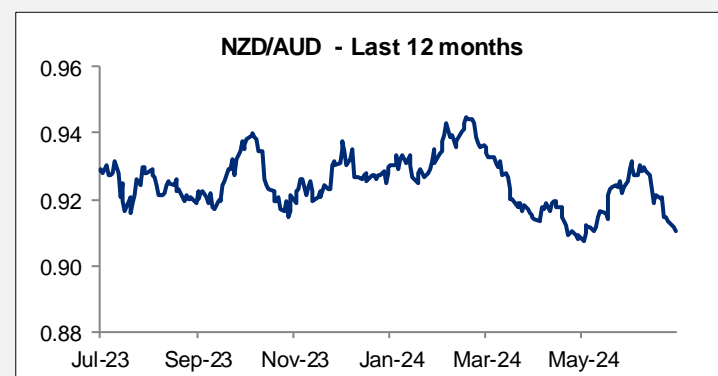
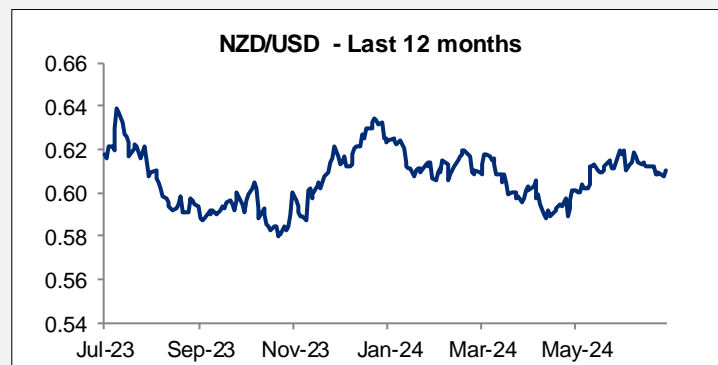
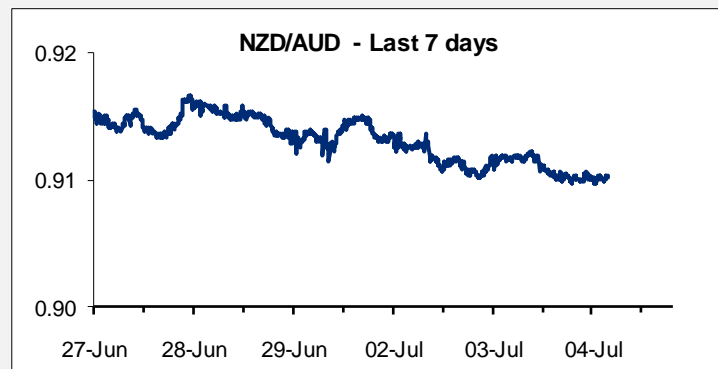
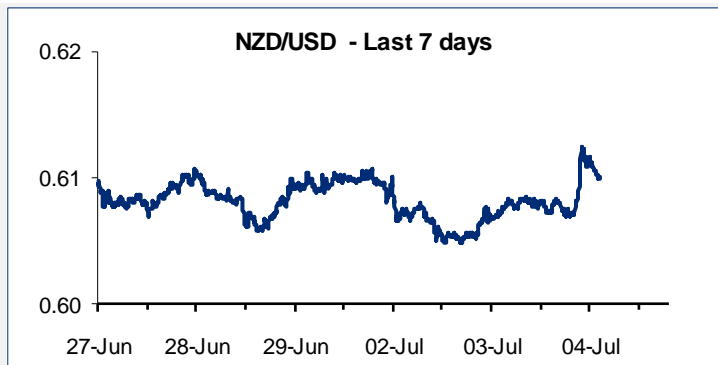
### Coming Up

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	0.6100	+0.4	0.6070	0.6129	CHF	0.9017	-0.2	S&P 500	5,537	+0.5	24.3	Oil (Brent)	87.28	+1.2				
AUD	0.6702	+0.5	0.6669	0.6734	SEK	10.510	-0.6	Dow	39,308	-0.1	14.2	Oil (WTI)	83.83	+1.2				
EUR	1.0782	+0.3	1.0747	1.0817	NOK	10.563	-1.0	Nasdaq	18,188	+0.9	31.6	Gold	2365.9	+1.4				
GBP	1.2736	+0.4	1.2687	1.2777	HKD	7.811	-0.0	Stoxx 50	4,966	+1.2	12.9	HRC steel	669.0	-0.1				
JPY	161.65	+0.1	160.78	161.95	CNY	7.270	-0.0	FTSE	8,171	+0.6	8.6	CRB	292.4	+0.3				
CAD	1.3638	-0.3			SGD	1.354	-0.1	DAX	18,375	+1.2	14.3	Wheat Chic.	573.5	-1.3				
NZD/AUD	0.9102	-0.2			IDR	16,371	-0.2	CAC 40	7,632	+1.2	3.3	Sugar	20.53	-0.4				
NZD/EUR	0.5658	+0.0			THB	36.68	-0.3	Nikkei	40,581	+1.3	21.4	Cotton	68.68	-1.1				
NZD/GBP	0.4790	-0.0			KRW	1,386	-0.1	Shanghai	2,982	-0.5	-8.1	Coffee	224.2	-1.7				
NZD/JPY	98.61	+0.5			TWD	32.66	+0.1	ASX 200	7,740	+0.3	6.3	WM powder	3100	-0.2				
NZD/CAD	0.8319	+0.1			PHP	58.73	-0.1	NZX 50	11,791	+0.1	-1.6	<b>Australian Futures</b>						
NZ TWI	72.07	+0.2						VIX Index	12.09	+0.5	-10.9	3 year bond	95.87	-0.02				
<b>Interest Rates</b>													10 year bond	95.62	0.02			
<b>Rates</b>		<b>Swap Yields</b>			<b>Benchmark 10 Yr Bonds</b>		<b>NZ Government Bonds</b>			<b>NZ BKBM and Swap Yields</b>								
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day		Last	Chg		Last	Chg						
USD	5.50	5.58	4.55	3.94	USD	4.36	-0.07	15-May-26	4.81	-0.01	BKBM 1-mth	5.60	0.00					
AUD	4.35	4.46	4.35	4.56	AUD	4.43	0.02	15-Apr-27	4.63	-0.00	BKBM 3-mth	5.63	0.00					
NZD	5.50	5.63	4.89	4.54	NZD	4.71	0.03	15-May-28	4.53	0.00	1 year	5.31	-0.04					
EUR	3.75	3.71	3.22	2.83	GER	2.59	-0.02	20-Apr-29	4.52	0.01	2 year	4.89	-0.03					
GBP	5.25	5.30	4.51	3.87	GBP	4.17	-0.08	15-May-30	4.55	0.02	3 year	4.63	-0.02					
JPY	0.08	-0.03	0.42	1.05	JPY	1.10	0.02	15-May-31	4.59	0.03	5 year	4.46	-0.00					
CAD	4.75	4.97	4.27	3.76	CAD	3.55	-0.06	15-May-32	4.64	0.03	7 year	4.46	0.00					
							<b>NZ Inflation-Indexed Bonds</b>											
							Sep-30	2.37	-0.02	15-May-34	4.71	0.03	10 year	4.54	0.02			
							Sep-35	2.69	-0.02	15-May-35	4.76	0.04	15 year	4.67	0.02			
							Sep-40	2.90	0.00	15-May-37	4.88	0.04						
										15-May-41	5.01	0.04						
										15-May-51	5.02	0.04						
										15-May-54	5.04	0.04						

\* These are indicative r 06:44  
 please confirm rates with your BNZ dealer  
 Rates are as of: NZT  
 Source: Bloomberg

**NZD exchange rates**

4/07/2024	6:44 am	Prev. NY close
USD	0.6100	0.6078
GBP	0.4790	0.4791
AUD	0.9102	0.9117
EUR	0.5658	0.5657
JPY	98.61	98.12
CAD	0.8319	0.8314
CHF	0.5500	0.5494
DKK	4.2196	4.2190
FJD	1.3653	1.3754
HKD	4.7645	4.7491
INR	50.95	50.75
NOK	6.4433	6.4864
PKR	169.76	#VALUE!
PHP	35.83	35.74
PGK	2.3417	2.3323
SEK	6.4113	6.4305
SGD	0.8259	0.8242
CNY	4.4348	4.4194
THB	22.43	22.40
TOP	1.4078	1.4181
VUV	73.40	73.20
WST	1.6503	1.6567
XPF	67.76	67.58
ZAR	11.2488	11.3089



**NZD/USD Forward Points**

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.21	0.19
3 Months	-0.58	0.18
6 Months	-1.43	-0.39
9 Months	-3.11	-1.11
1 Year	-5.31	-2.30

**NZD/AUD Forward points**

	BNZ buys NZD	BNZ Sells NZD
1 Month	-8.71	-7.81
3 Months	-23.00	-21.48
6 Months	-38.58	-35.66
9 Months	-47.79	-42.46
1 Year	-53.24	-44.78

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