

# Research Markets Today

4 June 2024

## Events Round-Up

CH: Caixin China PMI Mfg, May: 51.7 vs. 51.6 exp.

US: ISM Manufacturing, May: 48.7 vs 49.5 exp.

## Good Morning

US equity markets have started the new month on the back foot, following weaker than expected ISM data, which also led to lower treasury yields and a weaker US dollar. Major European indices advanced while Asian markets made solid gains. Oil prices fell sharply after OPEC+ announced plans to phase out its production cutbacks.

The manufacturing ISM fell to 48.7, from 49.2 in April, below consensus expectations of a small gain to 49.5. The new orders component, at 45.4, was weakest reading in 12-months. Prices paid were also lower than expected while the employment subindex increased to 51.1.

The combination of Friday's PCE deflator data, which was in line with expectations at 2.8% y/y, and the soft ISM have increased Fed rate cut expectations. There is about 40bps of easing priced by the end of 2024. Policy makers, who are now in the blackout ahead of the FOMC meeting next week, are likely to require additional inflation data to gain confidence it is moving sustainably to target before cutting rates later this year.

In China, The Caixin manufacturing PMI for May was marginally ahead of expectations at 51.7 and is at the highest level since June 2022. However, the Caixin measure contrasted with the official manufacturing PMI, which unexpectedly fell into contractionary territory, and combined provide mixed signals for the industrial sector.

In commodity markets, Brent crude fell more than 3%. OPEC+ outlined that its production cuts will remain in place through the September quarter and then be gradually phased out over the following 12 months. Most commodity analysts had expected the production cuts to be maintained till the end of the year.

US treasury yields moved sharply lower after the ISM data, extending the move from the end of last week. 10-year yields declined 10bps to 4.40% marking a decent reversal from the local high above 4.60% last week. 2-year yields

fell 5bps to 4.82% and are also close to 20bps below the recent highs.

10-year German bund yields fell 9bps to 2.58%. The European Central Bank is overwhelmingly expected to cut rates by 25bps at its monetary policy meeting this week. However, additional rate cuts are expected to be data dependent. There is about 60bps of cuts priced for this year.

The US dollar declined sharply with the dollar index falling close to 0.5%. The yen was amongst the top performing G10 currencies given its sensitivity to US treasury yields. USD/JPY traded below 156, its lowest level in a week. Data released by the finance ministry revealed Japan spent a record US\$62.2 billion in the past month to support the yen. This is more than the total amount it used in 2022 to defend the currency and exceeded earlier estimates.

NZD/USD reached the highest level in 10-weeks in offshore trade, amid the broad US dollar weakness, before stalling just ahead of 0.6190. The NZD made small gains against the AUD and traded above the 0.9250 to fresh multi-week highs and is now above the 200-day moving average.

NZ fixed income was closed yesterday for a public holiday but ended the local session on Friday lower in yield. The weekly bond tender, which was moved back a day because of the Budget, saw decent demand across all three lines. 10-year bonds closed down 8bps at 4.89%. Front end bonds lagged leading to a flatter government curve and bonds outperformed relative to swaps. 2-year swap rates fell 4bps to 5.10%, marking a decent reversal off key topside resistance in the 5.2-5.2% region.

Australian 10-year government bond futures are ~10bps lower in yield from the local close on Friday, suggesting a downward bias for NZ yields when the market reopens.

New Zealand Debt Management (NZDM) is expected to launch the tap syndication of the May 2028 nominal bond this morning following the announcement of the syndicate panel last week. NZDM confirmed today that the tap can prefund part of the FY25 programme. We expect NZDM will target issuance volumes of around NZ\$4 billion, with the flexibility to upsize if there is sufficient investor demand.

There is no domestic data in the day ahead. US JOLTS data for April are expected to show ongoing gradual moderation in the level of openings. Employee turnover indicators from the survey have been pointing to a materially rebalanced labour market.

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**Coming Up**

|    |                             | Period | Cons. | Prev. | NZT   |
|----|-----------------------------|--------|-------|-------|-------|
| AU | BoP Current Account Balance | 1Q     | 6     | 12    | 13:30 |
| GE | Unemployment Claims Rate SA | May    | 5.9   | 5.9   | 19:55 |
| US | JOLTS Job Openings          | Apr    | 8300  | 8488  | 02:00 |

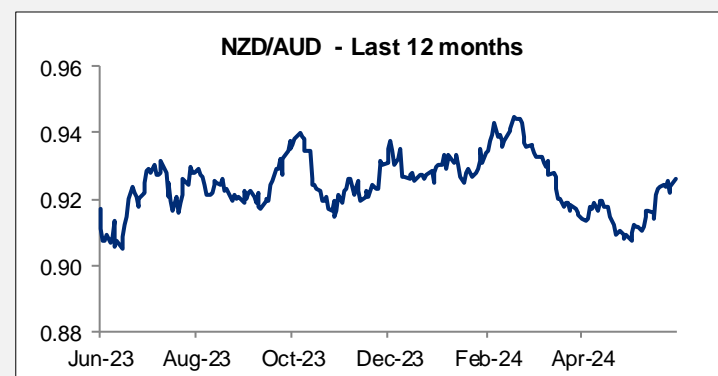
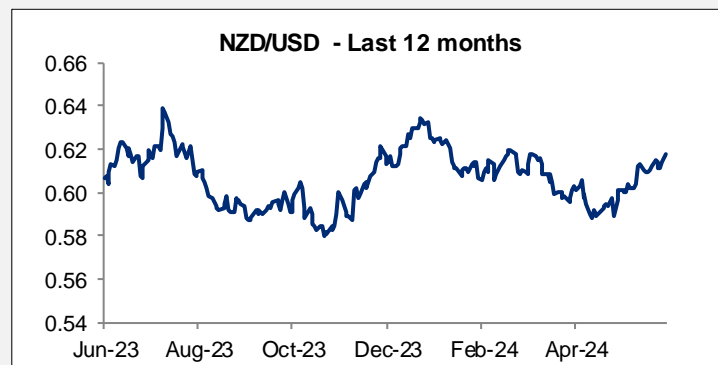
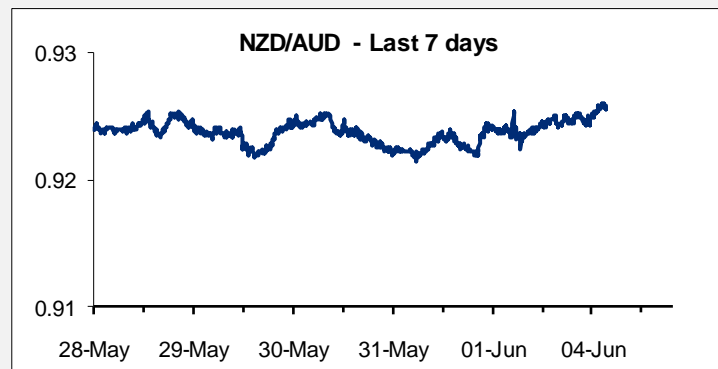
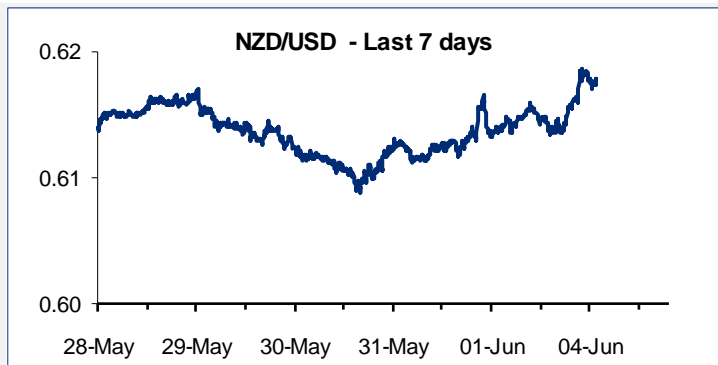
Source: Bloomberg, BNZ

| 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     | % Year    | Last                             | Net Day     |                           |         |      |      |
| NZD                   | 0.6178 | +0.6                            | 0.6134      | 0.6189 | CHF                   | 0.8954  | -0.8                              | S&P 500   | 5,257     | -0.4                             | 22.8        | Oil (Brent)               | 78.29   | -3.5 |      |
| AUD                   | 0.6674 | +0.3                            | 0.6633      | 0.6695 | SEK                   | 10.413  | -1.1                              | Dow       | 38,430    | -0.7                             | 13.8        | Oil (WTI)                 | 74.15   | -3.7 |      |
| EUR                   | 1.0894 | +0.4                            | 1.0828      | 1.0893 | NOK                   | 10.472  | -0.2                              | Nasdaq    | 16,747    | +0.1                             | 26.5        | Gold                      | 2346.5  | +1.0 |      |
| GBP                   | 1.2793 | +0.4                            | 1.2695      | 1.2794 | HKD                   | 7.820   | -0.0                              | Stoxx 50  | 5,004     | +0.4                             | 15.7        | HRC steel                 | 755.0   | -0.8 |      |
| JPY                   | 156.22 | -0.7                            | 155.95      | 157.29 | CNY                   | 7.242   | +0.0                              | FTSE      | 8,263     | -0.2                             | 8.6         | CRB                       | 290.2   | -1.0 |      |
| CAD                   | 1.3646 | +0.1                            |             |        | SGD                   | 1.347   | -0.3                              | DAX       | 18,608    | +0.6                             | 15.9        | Wheat Chic.               | 694.5   | -0.7 |      |
| NZD/AUD               | 0.9257 | +0.3                            |             |        | IDR                   | 16,230  | -0.1                              | CAC 40    | 7,998     | +0.1                             | 10.0        | Sugar                     | 18.78   | +2.6 |      |
| NZD/EUR               | 0.5671 | +0.2                            |             |        | THB                   | 36.63   | -0.5                              | Nikkei    | 38,923    | +1.1                             | 23.5        | Cotton                    | 73.15   | -3.9 |      |
| NZD/GBP               | 0.4829 | +0.1                            |             |        | KRW                   | 1,376   | -0.7                              | Shanghai  | 3,078     | -0.3                             | -4.7        | Coffee                    | 226.6   | +1.8 |      |
| NZD/JPY               | 96.51  | -0.1                            |             |        | TWD                   | 32.41   | -0.2                              | ASX 200   | 7,761     | +0.8                             | 8.6         | WM powder                 | 3285    | +0.8 |      |
| NZD/CAD               | 0.8430 | +0.7                            |             |        | PHP                   | 58.68   | +0.3                              | NZX 50    | 11,867    | +2.7                             | -0.1        | <b>Australian Futures</b> |         |      |      |
| NZ TWI                | 72.65  | +0.3                            |             |        |                       |         |                                   | VIX Index | 13.69     | +6.0                             | -6.2        | 3 year bond               | 95.98   | 0.03 |      |
| <b>Interest Rates</b> |        |                                 |             |        |                       |         | <b>NZ Government Bonds</b>        |           |           | <b>NZ BKBM and Swap Yields</b>   |             |                           |         |      |      |
|                       | Rates  |                                 | Swap Yields |        | Benchmark 10 Yr Bonds |         | Last                              | Chg       |           | Last                             | Chg         |                           |         |      |      |
|                       | Cash   | 3Mth                            | 2 Yr        | 10 Yr  | Last                  | Net Day |                                   |           |           |                                  |             | Last                      | Chg     |      |      |
| USD                   | 5.50   | 5.60                            | 4.72        | 4.03   | USD                   | 4.40    | -0.10                             | 15-May-26 | 4.91      | 0.00                             | BKBM 1-mth  | 5.60                      | 0.00    |      |      |
| AUD                   | 4.35   | 4.35                            | 4.21        | 4.46   | AUD                   | 4.37    | -0.04                             | 15-Apr-27 | 4.75      | 0.00                             | BKBM 3-mth  | 5.63                      | 0.00    |      |      |
| NZD                   | 5.50   | 5.63                            | 5.10        | 4.66   | NZD                   | 4.82    | 0.00                              | 15-May-28 | 4.69      | 0.00                             | 1 year      | 5.51                      | 0.00    |      |      |
| EUR                   | 4.00   | 3.79                            | 3.34        | 2.82   | GER                   | 2.58    | -0.08                             | 20-Apr-29 | 4.65      | 0.00                             | 2 year      | 5.10                      | 0.00    |      |      |
| GBP                   | 5.25   | 5.30                            | 4.68        | 3.94   | GBP                   | 4.22    | -0.10                             | 15-May-30 | 4.65      | 0.00                             | 3 year      | 4.83                      | 0.00    |      |      |
| JPY                   | 0.08   | -0.03                           | 0.45        | 1.07   | JPY                   | 1.07    | -0.00                             | 15-May-31 | 4.70      | 0.00                             | 5 year      | 4.62                      | 0.00    |      |      |
| CAD                   | 5.00   | 5.21                            | 4.44        | 3.81   | CAD                   | 3.52    | -0.11                             | 15-May-32 | 4.74      | 0.00                             | 7 year      | 4.60                      | 0.00    |      |      |
|                       |        |                                 |             |        |                       |         | <b>NZ Inflation-Indexed Bonds</b> |           | 14-Apr-33 | 4.78                             | 0.00        | 10 year                   | 4.66    | 0.00 |      |
|                       |        |                                 |             |        |                       |         | Sep-30                            | 2.31      | 0.00      | 15-May-34                        | 4.82        | 0.00                      | 15 year | 4.79 | 0.00 |
|                       |        |                                 |             |        |                       |         | Sep-35                            | 2.63      | 0.00      | 15-May-35                        | 4.86        | 0.00                      |         |      |      |
|                       |        |                                 |             |        |                       |         | Sep-40                            | 2.82      | 0.00      | 15-May-37                        | 4.95        | 0.00                      |         |      |      |
|                       |        |                                 |             |        |                       |         |                                   |           | 15-May-41 | 5.05                             | 0.00        |                           |         |      |      |
|                       |        |                                 |             |        |                       |         |                                   |           | 15-May-51 | 5.04                             | 0.00        |                           |         |      |      |
|                       |        |                                 |             |        |                       |         |                                   |           | 15-May-54 | 5.07                             | 0.00        |                           |         |      |      |

\* These are indicative r 06:33  
 please confirm rates with your BNZ dealer  
 Rates are as of: NZT  
 Source: Bloomberg

**NZD exchange rates**

| 4/06/2024 6:32 am |         | Prev. NY close |
|-------------------|---------|----------------|
| USD               | 0.6178  | 0.6143         |
| GBP               | 0.4829  | 0.4821         |
| AUD               | 0.9257  | 0.9233         |
| EUR               | 0.5671  | 0.5663         |
| JPY               | 96.51   | 96.64          |
| CAD               | 0.8430  | 0.8372         |
| CHF               | 0.5532  | 0.5543         |
| DKK               | 4.2297  | 4.2240         |
| FJD               | 1.3965  | 1.3864         |
| HKD               | 4.8309  | 4.8036         |
| INR               | 51.37   | 51.27          |
| NOK               | 6.4698  | 6.4474         |
| PKR               | 172.00  | 169.64         |
| PHP               | 36.26   | 35.95          |
| PGK               | 2.3689  | 2.3447         |
| SEK               | 6.4333  | 6.4689         |
| SGD               | 0.8319  | 0.8300         |
| CNY               | 4.4742  | 4.4486         |
| THB               | 22.73   | 22.61          |
| TOP               | 1.4258  | 1.4177         |
| VUV               | 74.27   | 73.37          |
| WST               | 1.6800  | 1.6631         |
| XPF               | 67.84   | 67.59          |
| ZAR               | 11.4401 | 11.5445        |



**NZD/USD Forward Points**

|          | BNZ buys NZD | BNZ sells NZD |
|----------|--------------|---------------|
| 1 Month  | -0.11        | 0.10          |
| 3 Months | -0.56        | 0.03          |
| 6 Months | -2.49        | -1.49         |
| 9 Months | -5.78        | -3.77         |
| 1 Year   | -8.90        | -5.90         |

**NZD/AUD Forward points**

|          | BNZ buys NZD | BNZ Sells NZD |
|----------|--------------|---------------|
| 1 Month  | -8.34        | -7.86         |
| 3 Months | -24.87       | -23.58        |
| 6 Months | -47.26       | -44.69        |
| 9 Months | -67.16       | -62.01        |
| 1 Year   | -83.46       | -75.64        |

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