

Research Markets Today

4 November 2024

Events Round-Up

NZ: Dwelling consents (m/m%), Sep: 2.6 vs. -5.3 prev.
 AU: Home loans value (m/m%), Sep: -0.3 vs. 1.0 exp.
 CH: Caixin PMI manufacturing, Oct: 50.3 vs. 49.7 exp.
 US: Change in nonfarm payrolls (k), Oct: 12 vs. 101 exp.
 US: Unemployment rate (%), Oct: 4.1 vs. 4.1 exp.
 US: Avg hrly earnings (m/m%), Oct: 0.4 vs. 0.3 exp.
 US: Avg hrly earnings (y/y%), Oct: 4.0 vs. 4.0 exp.
 US: ISM manufacturing, Oct: 46.5 vs. 47.6 exp.

Good Morning

Global equity markets began the new month on a positive note despite weaker than expect US labour market data. The S&P closed 0.4% higher while stocks in Europe also advanced as investors look ahead to the FOMC and US election this week. Global bond yields whipsawed but ultimately ended higher after dropping immediately following the data. The US dollar was generally stronger against G10 currencies. After markets were closed, OPEC+ announced it plans to delay its December output hike by one month.

US Nonfarm payrolls increased 12K in October, well below the consensus expectation for a 101k gain, with recent weather events a contributing factor. In addition, there were downward revisions totalling 112k for the previous two months. The Bureau of Labor Statistics said the two hurricanes impacted hiring in some industries, but it wasn't possible to quantify the net effect on the change in employment, hours or earnings.

The unemployment rate held at 4.1% and hourly earnings remained firm. This is the last major data point before the FOMC, and while the Federal Reserve will likely attribute some of the weakness in payrolls data to one-off factors, it is consistent with a further rate cut this week. Market pricing is little changed, with 25bp cut largely discounted for the meeting, and a total of 46bp by the end of the year.

The US manufacturing ISM remained in contractionary territory for the seventh consecutive month. The index dipped to 46.5, the lowest level since July 2023, with a drop in the production subindex weighing which is consistent with a downturn in manufacturing output. The ISM noted that election uncertainty is impacting

investment in inventory and capital expenditure. The prices paid subindex increased to a five-month high.

US treasuries were volatile with a large intra-day swing. Yields dropped immediately after the payrolls data – 2-year traded from 4.21% to a low of 4.06% - before reversing course to end the session at 4.21%. 10-year yields closed 10bp higher at 4.38%, a new high for the move that began in September. The market remains cautious ahead of the election with implied volatility at the highest level in more than twelve months. There is 3, 10 and 30-year treasury supply to absorb this week.

The post-Budget selloff in UK gilts, which pushed 10-year yields to the highest level in a year, has abated. Chancellor Rachel Reeves said that economic and fiscal stability is her 'number one commitment'. Gilt yields reached an intra-week high of 4.53%, up from 4.20% ahead of the Budget, before closing at 4.44%. 10-year bunds closed 2bp higher at 2.40%.

US dollar price action aligned closely with treasuries. An initial dip reversed, and the dollar index closed 0.3% higher. The pound performed and was the only G10 currency that gained against the US dollar, as UK markets calmed after the Budget volatility. The Swiss franc was relatively weak after inflation slowed unexpectedly. The CFTC reported speculative accounts have continued to accumulate long US dollar positions.

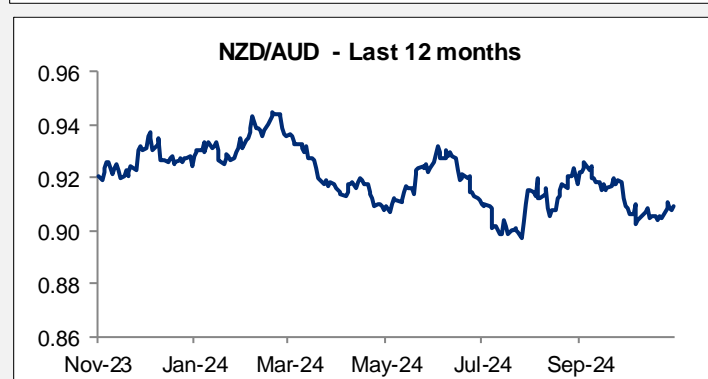
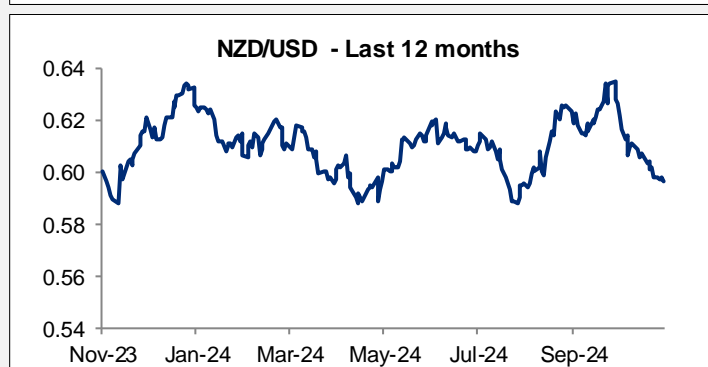
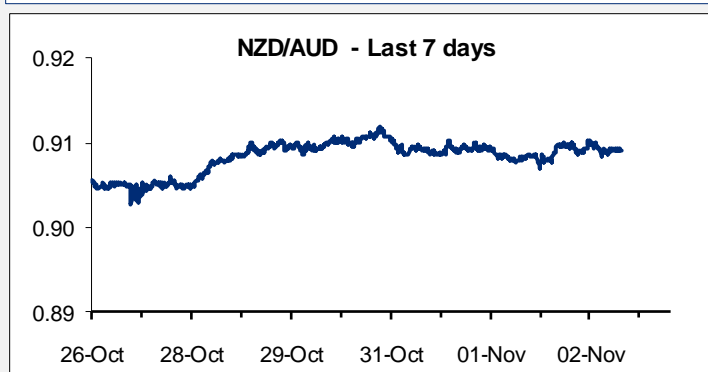
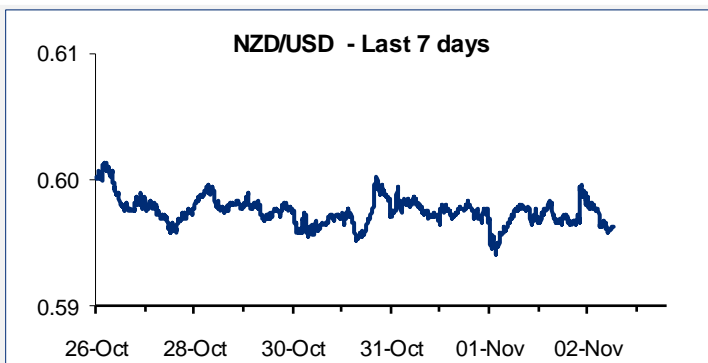
NZD/USD spiked towards 0.6000 but subsequently retraced to end the offshore session marginally weaker. The NZD was broadly stable on the major cross rates except for NZD/GBP which traded down towards 0.4610.

It was a relatively quiet session for NZ fixed income in the local session on Friday. 2-year swap rates closed 3bp higher at 3.68% while 10-year rates increased 1bp to 4.17%. NZ continued to outperform on a cross-market basis. The 10-year government bond spread against Australia fell to -8bp, as ACGB yields increased to the highest level since last November. A negative cross-market spread is a relatively rare occurrence, the last time being during the pandemic, when the RBNZ was considered the possibility of a negative policy rate. 10-year NZGBs closed at 4.47%.

Australian 10-year government bond futures are 7bp higher in yield terms since the local close on Friday, and

NZD exchange rates

2/11/2024	NY close	Prev. NY close
USD	0.5963	0.5977
GBP	0.4615	0.4634
AUD	0.9091	0.9081
EUR	0.5504	0.5492
JPY	91.22	90.87
CAD	0.8320	0.8328
CHF	0.5188	0.5165
DKK	4.1052	4.0962
FJD	1.3500	1.3615
HKD	4.6375	4.6462
INR	50.14	50.26
NOK	6.5977	6.5748
PKR	165.55	165.95
PHP	34.65	34.81
PGK	2.3541	2.3587
SEK	6.4085	6.3644
SGD	0.7908	0.7888
CNY	4.2510	4.2544
THB	20.22	20.17
TOP	1.3887	1.4054
VUV	71.82	72.48
WST	1.6474	1.6554
XPF	65.73	65.97
ZAR	10.5276	10.5213



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	0.79	1.24
3 Months	4.90	6.30
6 Months	12.92	13.92
9 Months	18.64	26.32
1 Year	29.21	32.21

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-1.57	-0.59
3 Months	1.47	4.38
6 Months	14.20	16.72
9 Months	26.86	39.96
1 Year	46.79	55.29

Contact Details

BNZ Research

Stephen Toplis

Head of Research
+64 4 474 6905

Doug Steel

Senior Economist
+64 4 474 6923

Jason Wong

Senior Markets Strategist
+64 4 924 7652

Stuart Ritson

Senior Interest Rate Strategist
+64 9 9248601

Mike Jones

BNZ Chief Economist
+64 9-956 0795

Main Offices

Wellington

Level 4, Spark Central
42-52 Willis Street
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

Auckland

80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

Christchurch

111 Cashel Street
Christchurch 8011
New Zealand
Toll Free: 0800 854 854

This document has been produced by Bank of New Zealand (BNZ). BNZ is a registered bank in New Zealand and is only authorised to offer products and services to customers in New Zealand.

Analyst Disclaimer: The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed.

BNZ maintains an effective information barrier between the research analysts and its private side operations. Private side functions are physically segregated from the research analysts and have no control over their remuneration or budget. The research functions do not report directly or indirectly to any private side function. The Research analyst might have received help from the issuer subject in the research report.

New Zealand: The information in this publication is provided for general information purposes only, and is a summary based on selective information which may not be complete for your purposes. This publication does not constitute any advice or recommendation with respect to any matter discussed in it, and its contents should not be relied on or used as a basis for entering into any products described in it. Bank of New Zealand recommends recipients seek independent advice prior to acting in relation to any of the matters discussed in this publication.

Any statements as to past performance do not represent future performance, and no statements as to future matters are guaranteed to be accurate or reliable.

Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever which may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

USA: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.

