

Research Markets Today

5 August 2024

Events Round-Up

AU: Home loans value (m/m%), Jun: 1.3 vs. 0.1 exp.
 US: Change in nonfarm payrolls (k), Jul: 114 vs. 175 exp.
 US: Unemployment rate (%), Jul: 4.3 vs. 4.1 exp.
 US: Avg hourly earnings (m/m%), Jul: 0.2 vs. 0.3 exp.
 US: Avg hourly earnings (y/y%), Jul: 3.6 vs. 3.7 exp.

Good Morning

The risk off tone in the Asian session intensified into the weekly close following soft US labour market data. Global equities remained under pressure with the S&P closing almost 2% lower. The VIX index of expected volatility for the S&P rose to an intraday high of 29.5, just below the levels from March 2023 when the US regional banking stress hit a peak. US treasuries extended the move lower in yield as market participants increased expectations for easing by the Federal Reserve. The US Dollar declined despite weak risk sentiment and oil prices fell sharply.

Some of the largest equity market falls were in Asia. Japan's Nikkei index declined sharply for the second consecutive session on expectations of further tightening by the bank of Japan and associated gains in the yen. The Nikkei closed nearly 6% lower, extending the technical correction to ~15%, from the peak in July. The pullback is the sharpest since the pandemic.

The US labour market cooled more than expected in July. Non-farm payrolls increased 114k, which was below the consensus of 175k, and there were downward revisions of 29k to previous months. The unemployment rate increased to 4.3%, from 4.1%, well above the consensus for no change. The move higher triggered a widely followed recession indicator, the Sahm rule, which occurs when the 3-month average unemployment rate jumps more than 0.5% point in a year.

The recent run of US data suggests that labour demand has weakened further, and is prompting growing fears of a US economic slowdown, following lacklustre earnings from consumer and technology companies over the past week. The Fed's estimate of the long-term neutral unemployment rate is 4.2%, suggesting current levels can be expected to dampen inflation pressures. Average hourly earnings rose by 0.2%, below the 0.3% consensus, taking the annual rate to 3.6%.

The data prompted Wall Street banks to call for more aggressive rate cuts by the Fed. Citi and JP Morgan are forecasting a 50bps cut at the September FOMC and market pricing implies that the outcome of the meeting is now finely balanced between a 25bps and 50bps cut. Interest rate swaps are pricing 44bps for September and a total of 116bps of cuts by the end of the year.

US Treasury yields dopped sharply led by the front end of the curve. 2-year yields fell a massive 27bps to 3.88% while 10-year yields dropped 19bps to 3.79%. The 2y/10y UST curve steepened to -9bps, its least inverted level in more than two years. European yields moved lower but underperformed UST. 10-year bunds closed at 2.16%, a fall of 7bps by the close. Peripheral bond spreads in have widened in Europe amid the softer risk tone. Italy's 10-year yield spread over Germany has risen to the highest level in a month and France's spread is only 7bps below the June peak of 82bps.

The dollar fell sharply with the move concentrated against major currencies. The dollar index fell more than 1% to the lowest level since March. The fall in yield support outweighed the dollar's typical defensive properties. The yen continued to strengthen gaining almost 2% against the dollar while the euro also made solid gains. Despite the weaker dollar against the majors, the growth sensitive G10 currencies, including the NZD and AUD, were little changed.

The NZD/USD move higher after the US data faded with weak risk appetite weighing. The NZD lost ground against the euro and pound while NZD/JPY closed at the session low near 87.30, a fall of nearly 12% since the July peak. NZD/AUD was generally stable near 0.9150, consolidating an almost 2% move higher through last week.

In commodity markets, Brent crude fell to the lowest level since January on concerns about demand in the US and China, illustrated by soft PMI readings, which has overshadowed heightened geopolitical risk. OPEC+ expects to boost production starting next quarter, though members could look to delay increasing supply, till demand improves. Brent closed at US\$77.50 per barrel, a fall of 2.5%.

NZ fixed income yields extended lower in the local session on Friday reflecting moves in offshore markets in the absence of domestic data or catalysts. 2-year swap rates fell 5bps to 4.14%, the lowest level in almost two years. There was a curve steepening bias with 10-year rates declining 2bps to 3.99%. 10-year government bonds closed down 3bps at 4.24%.

Australian 10-year bond futures are ~9bps lower in yield on Friday evening, suggesting a downward bias for NZGB yields on the open.

There is no domestic data of note today. The Caixin services PMI is released in China and services ISM in the US. The services ISM unexpectedly dropped into contractionary territory last month and the consensus looks for a recovery in July.

stuart.ritson@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
CH	Caixin China PMI Services	Jul	51.5	51.2	13:45
US	ISM Services Index	Jul	51.3	48.8	02:00

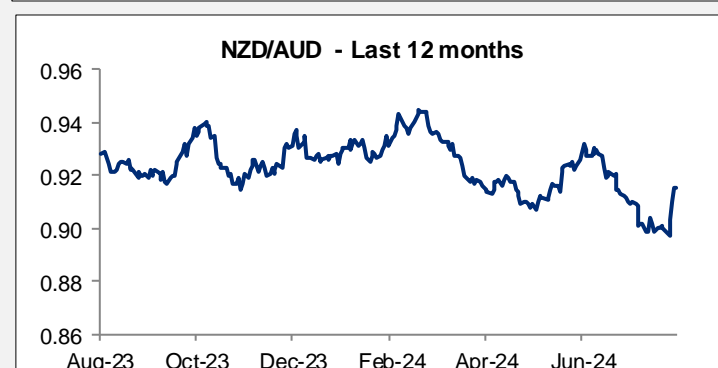
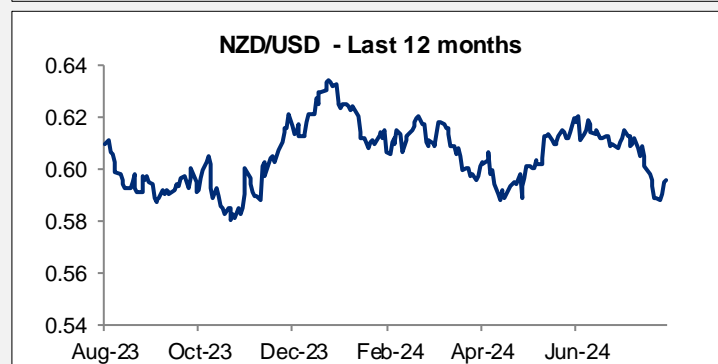
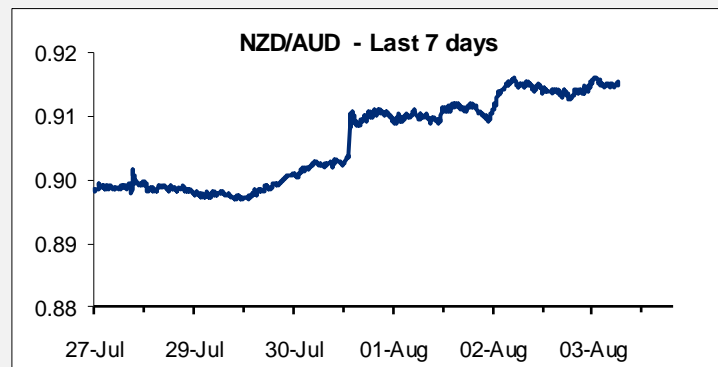
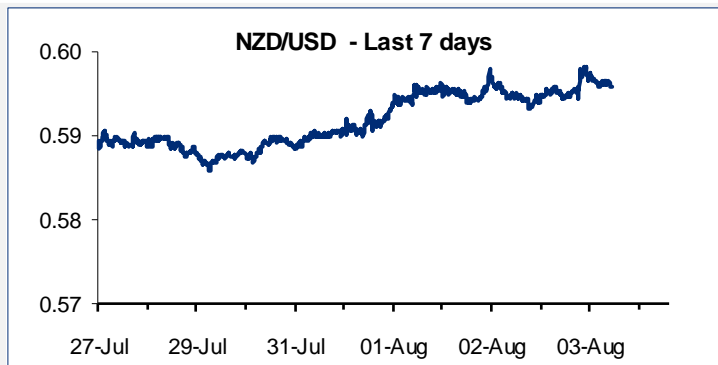
Source: Bloomberg, BNZ

Currencies							Equities				Commodities				
Global froces		Indicative overnight ranges (*)			Other FX		Major Indices				Price (Near futures, except CRB)				
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day				
NZD	0.5958	+0.2	0.5942	0.5985	CHF	0.8590	-1.6		S&P 500	5,347	-1.8	18.5	Oil (Brent)	76.81	-3.4
AUD	0.6511	+0.2	0.6501	0.6547	SEK	10.580	-1.4		Dow	39,737	-1.5	12.6	Oil (WTI)	73.52	-3.7
EUR	1.0911	+1.1	1.0786	1.0927	NOK	10.943	-0.1		Nasdaq	16,776	-2.4	20.1	Gold	2425.7	-0.4
GBP	1.2806	+0.5	1.2707	1.2840	HKD	7.807	-0.1		Stoxx 50	4,639	-2.7	7.0	HRC steel	681.0	-1.0
JPY	146.54	-1.9	146.42	149.32	CNY	7.169	-1.0		FTSE	8,175	-1.3	8.1	CRB	270.1	-1.3
CAD	1.3873	-0.0			SGD	1.327	-0.7		DAX	17,661	-2.3	10.2	Wheat Chic.	562.3	+1.0
NZD/AUD	0.9150	-0.0			IDR	16,200	-0.2		CAC 40	7,252	-1.6	-0.8	Sugar	18.10	-2.2
NZD/EUR	0.5460	-0.9			THB	35.32	-0.7		Nikkei	35,910	-5.8	11.5	Cotton	67.18	+0.4
NZD/GBP	0.4652	-0.4			KRW	1,360	-0.7		Shanghai	2,905	-0.9	-11.6	Coffee	230.5	+1.4
NZD/JPY	87.30	-1.7			TWD	32.80	+0.1		ASX 200	7,943	-2.1	8.4	WM powder	3040	+0.2
NZD/CAD	0.8265	+0.1			PHP	58.11	-0.4		NZX 50	12,453	-0.3	4.3	Australian Futures		
NZ TWI	69.78	-0.5						VIX Index	23.39	+25.8	+45.4	3 year bond	96.36	0.06	
												10 year bond	96.05	0.07	
Interest Rates							NZ Government Bonds				NZ BKBM and Swap Yields				
	Rates		Swap Yields		Benchmark 10 Yr Bonds		Last	Chg	Last	Chg	Last	Chg			
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day									
USD	5.50	5.50	3.69	3.36	USD	3.79	-0.19	15-May-26	4.25	-0.03	BKBM 1-mth	5.53	0.00		
AUD	4.35	4.41	3.75	4.06	AUD	4.05	-0.04	15-Apr-27	4.01	-0.03	BKBM 3-mth	5.44	-0.01		
NZD	5.50	5.44	4.14	3.99	NZD	4.24	-0.03	15-May-28	3.93	-0.03	1 year	4.74	-0.05		
EUR	3.75	3.64	2.74	2.50	GER	2.17	-0.07	20-Apr-29	3.94	-0.03	2 year	4.14	-0.05		
GBP	5.00	5.30	4.03	3.54	GBP	3.83	-0.05	15-May-30	3.98	-0.03	3 year	3.90	-0.04		
JPY	0.23	-0.03	0.47	0.88	JPY	0.95	-0.09	15-May-31	4.05	-0.03	5 year	3.80	-0.04		
CAD	4.50	4.97	3.20	2.93	CAD	3.00	-0.11	15-May-32	4.15	-0.03	7 year	3.87	-0.02		
								14-Apr-33	4.20	-0.03	10 year	3.99	-0.02		
								15-May-34	4.24	-0.03	15 year	4.15	-0.02		
								15-May-35	4.31	-0.03					
								15-May-37	4.45	-0.03					
								15-May-41	4.64	-0.03					
								15-May-51	4.69	-0.02					
								15-May-54	4.72	-0.02					

* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer
 Rates at NY close
 Source: Bloomberg

NZD exchange rates

3/08/2024	NY close	Prev. NY close
USD	0.5958	0.5949
GBP	0.4652	0.4670
AUD	0.9150	0.9151
EUR	0.5460	0.5513
JPY	87.30	88.85
CAD	0.8265	0.8254
CHF	0.5118	0.5193
DKK	4.0745	4.1134
FJD	1.3538	1.3511
HKD	4.6516	4.6490
INR	49.90	49.81
NOK	6.5200	6.5152
PKR	165.81	165.50
PHP	34.62	34.71
PGK	2.3066	2.2978
SEK	6.3037	6.3836
SGD	0.7905	0.7952
CNY	4.2732	4.3101
THB	21.07	21.18
TOP	1.3865	1.4077
VUV	72.43	72.35
WST	1.6423	1.6302
XPF	65.46	65.72
ZAR	10.8825	10.8712



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	0.20	0.66
3 Months	-0.11	0.68
6 Months	-3.85	-2.84
9 Months	-11.36	-3.54
1 Year	-15.37	-12.37

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-7.99	-7.53
3 Months	-19.17	-17.68
6 Months	-29.35	-26.61
9 Months	-38.50	-24.56
1 Year	-39.12	-30.31

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

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