

Research Markets Today

5 June 2024

Events Round-Up

AU: Current account bal (\$b), Q1: -4.9 vs. +5.2 exp.

GE: Unemployment rate (%), May: 5.9 vs. 5.9 exp.

US: JOLTS job openings (m), Apr: 8.06 vs. 8.35 exp.

Good Morning

US Treasury yields have fallen for a fourth successive day, seeing the 10-year rate down towards 4.3%, supported by safe-haven flows after some surprising EM election results, lower oil prices, and softer US labour market data. The USD is broadly stronger overnight, seeing the NZD slightly weaker after its run towards 0.62 yesterday. The yen has outperformed as the market anticipates less BoJ bond buying ahead.

There have been a number of market drivers supporting the move lower in US Treasury yields seen over recent trading sessions.

Results in emerging market elections have resulted in some market volatility and safe-haven flows. In India, PM Modi will retain power, but his party lost its majority and will have to rely on smaller parties to govern, defying expectations that his party would extend its majority. In South Africa, the ANC lost its majority for the first time since it took power in 1994 and will have to reach a coalition deal to form a government. Mexico elected its first woman President in a much larger than expected victory that could see it unilaterally pass amendments to the constitution. India's benchmark equity index fell nearly 6% and the rupee is ½% weaker, the South African rand is down 1%, and the Mexican peso fell 1% after tumbling 4% the previous day.

These emerging market election results have likely resulted in safe-haven flows towards the USD and US Treasuries. Our risk appetite index is lower, down towards the 70% mark (from a peak of 85% a couple of weeks ago), with a sharp lift in emerging market sovereign credit spreads driving the index, more than the contribution from a small lift in the VIX index.

Supporting Treasuries, oil prices are lower again, down around 1% following the 4% tumble yesterday following OPEC+'s plans to loosen its production curbs as early as October. Brent crude is trading below USD78 per barrel and WTI crude is below USD74. Lower oil prices will help

lower CPI headline inflation rates around the world, supporting the move towards easier global monetary policy.

Another support for Treasuries has come in the form of further softer US economic data. Hot off the heels of data showing real personal spending contracted in April and the weaker ISM manufacturing report, the US JOLTS survey showed job openings falling by 296k in April, much more than expected, to 8.06m, the lowest level in over three years. The fall was broad based and took the ratio of job openings to unemployed people down to 1.2, the level prevailing just ahead of COVID, and well down from the peak of 2.0. The quits rate was 2.2, the same level for the past six months. The data suggest further slowing in employment growth, helping to ease pressure on wage inflation and comes ahead of the more important employment report at the end of the week.

US Treasuries are lower across the curve, with the 2-year rate down 4bps to 4.77% and the 10-year rate down 5bps to 4.33%, the latter now down 28bps over the past four trading sessions. Lower rates have provided a little support to the equity market, with the S&P500 up modestly, with some offsetting growth outlook concerns holding back performance.

The USD is broadly stronger overnight although the yen has been the top performer by far, gaining around 1%. Alongside lower Treasury yields supporting the yen, another possible factor was Bloomberg reporting that the BoJ is likely to discuss the reduction of bond purchases at its policy meeting next week – specifically consider if the timing is appropriate to slow the pace of bond buying and whether it needs to provide more details on the outlook to improve predictability, given the desire of not surprising the market. USD/JPY is down to 154.70 and NZD/JPY is down to 95.6 after reaching a fresh 17-year high of 96.85 yesterday.

Continuing its positive run, the NZD met some resistance just under 0.62 around lunch-time yesterday and, after falling below 0.6160 overnight, it has settled around 0.6180. The AUD has underperformed, down to 0.6650, not helped by broadly lower commodity prices. NZD/AUD continues to push higher and rose to almost 0.93 in early trading this morning. The NZD has been trading flat against EUR and GBP.

The overnight GDT dairy auction, the first for the new season, showed a 1.7% lift in the price index, with whole

milk powder up 1.7% and skim milk powder up 3.0%. This continues the run of stronger dairy pricing and will add to upside risk to Fonterra's first (conservative) estimate of an \$8 midpoint payout for 2024/25.

Global forces drove NZ rates lower yesterday, but not anywhere near the extent of lower Treasury yields, implying wider NZ-US rate spreads. The move lower in NZ rates closely resembled the milder fall in Australian rates since NZ left for the long weekend. NZGB yields were down 3-8bps, with the 10-year rate down 8bps to 4.74%. Swap rates fell 2-5bps.

In the day ahead, NZ terms of trade, Australia Q1 GDP, Japan wages and China Caixin PMI data are released. The consensus sees Australia GDP rising a modest 0.2% q/q. Tonight sees the release of US ADP employment and the ISM services index. Last month, the latter was market moving when it unexpectedly fell below 50 and the consensus expects a bounce-back to 51.0. The Bank of Canada could kick off its easing cycle, with a clear majority

of economists expecting a 25bps cut in the policy rate to 4.75% and the market pricing an 80% chance of this.

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Coming Up

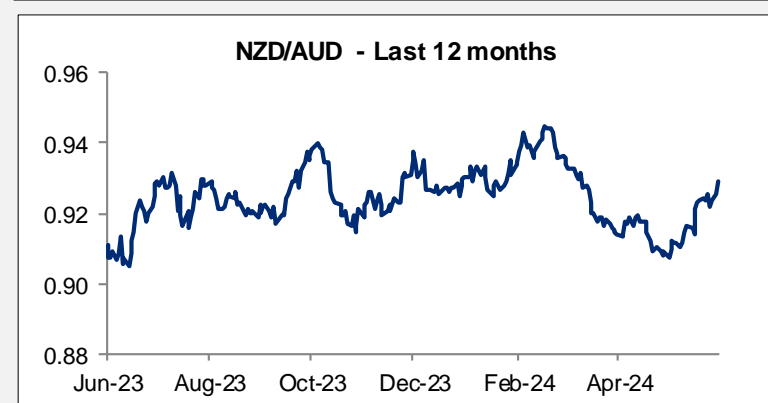
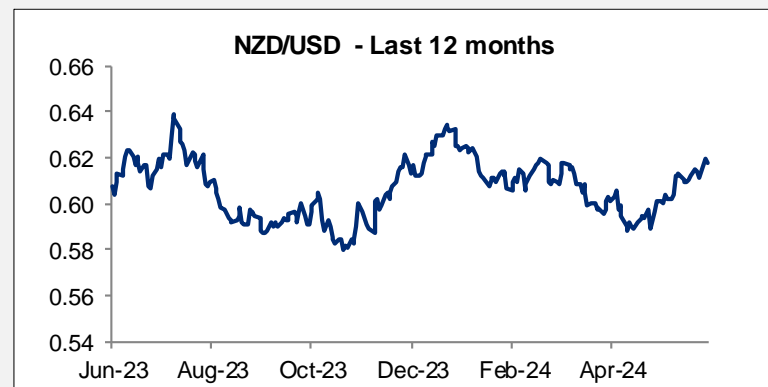
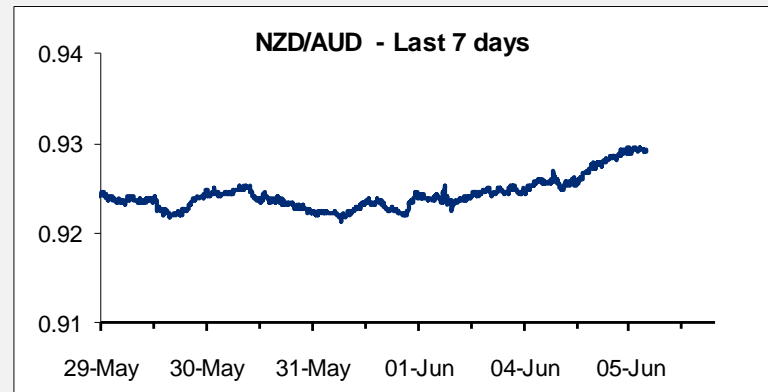
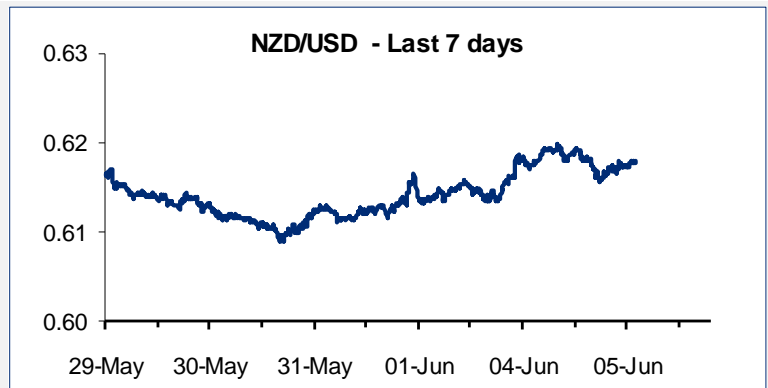
		Period	Cons.	Prev.	NZT
NZ	Terms of trade (q/q%)	Q1	3.2	-7.8	10:45
JN	Labor cash earnings (y/y%)	Apr	1.8	0.6	11:30
AU	GDP (q/q%)	Q1	0.2	0.2	13:30
CH	Caixin PMI services	May	52.5	52.5	13:45
US	ADP employment change (k)	May	175	192	00:15
CA	Bank of Canada policy rate (%)	Jun	4.75	5.0	01:45
US	ISM services index	May	51.0	49.4	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	0.6181	-0.2	0.6156	0.6187	CHF	0.8896	-0.7	S&P 500	5,298	+0.3	23.7	Oil (Brent)	77.69	-0.9
AUD	0.6651	-0.6	0.6631	0.6669	SEK	10.438	+0.3	Dow	38,721	+0.4	14.7	Oil (WTI)	73.46	-1.0
EUR	1.0882	-0.2	1.0859	1.0899	NOK	10.565	+1.0	Nasdaq	16,860	+0.2	27.3	Gold	2325.2	-0.9
GBP	1.2780	-0.2	1.2743	1.2802	HKD	7.813	-0.1	Stoxx 50	4,953	-1.0	14.6	HRC steel	745.0	-0.8
JPY	154.74	-0.9	154.55	155.96	CNY	7.240	-0.0	FTSE	8,232	-0.4	8.2	CRB	289.1	-0.4
CAD	1.3680	+0.4			SGD	1.346	+0.0	DAX	18,406	-1.1	14.7	Wheat Chic.	680.0	-2.0
NZD/AUD	0.9293	+0.4			IDR	16,220	-0.1	CAC 40	7,938	-0.8	9.2	Sugar	18.86	+0.4
NZD/EUR	0.5680	+0.0			THB	36.61	+0.0	Nikkei	38,837	-0.2	20.5	Cotton	73.48	+0.5
NZD/GBP	0.4836	+0.0			KRW	1,376	+0.0	Shanghai	3,091	+0.4	-4.4	Coffee	233.9	+2.1
NZD/JPY	95.64	-1.1			TWD	32.40	-0.0	ASX 200	7,737	-0.3	7.2	WM powder	3290	+0.2
NZD/CAD	0.8456	+0.2			PHP	58.74	+0.1	NZX 50	11,881	+0.1	0.0	Australian Futures		
NZ TWI	72.71	-0.1						VIX Index	13.23	+0.9	-9.4	3 year bond	96.03	0.05
												10 year bond	95.76	0.07
Interest Rates							NZ Government Bonds				NZ BKBM and Swap Yields			
Rates		Swap Yields			Benchmark 10 Yr Bonds									
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day		Last	Chg		Last	Chg		
USD	5.50	5.60	4.67	3.97	USD	4.34	-0.05	15-May-26	4.88	-0.03	BKBM 1-mth	5.60	0.00	
AUD	4.35	4.35	4.16	4.41	AUD	4.30	-0.07	15-Apr-27	4.71	-0.04	BKBM 3-mth	5.62	-0.00	
NZD	5.50	5.62	5.07	4.61	NZD	4.74	-0.08	15-May-28	4.65	-0.04	1 year	5.48	-0.02	
EUR	4.00	3.78	3.30	2.77	GER	2.53	-0.05	20-Apr-29	4.59	-0.05	2 year	5.07	-0.03	
GBP	5.25	5.30	4.66	3.89	GBP	4.18	-0.04	15-May-30	4.60	-0.06	3 year	4.80	-0.03	
JPY	0.08	-0.03	0.43	1.03	JPY	1.03	-0.04	15-May-31	4.64	-0.06	5 year	4.58	-0.04	
CAD	5.00	5.20	4.39	3.75	CAD	3.45	-0.06	15-May-32	4.68	-0.07	7 year	4.55	-0.05	
								14-Apr-33	4.70	-0.08	10 year	4.61	-0.05	
								15-May-34	4.74	-0.08	15 year	4.74	-0.05	
								15-May-35	4.78	-0.07				
								15-May-37	4.89	-0.06				
								15-May-41	4.98	-0.06				
								15-May-51	4.98	-0.06				
								15-May-54	5.00	-0.07				
* These are indicative r 07:00 please confirm rates with your BNZ dealer							NZ Inflation-Indexed Bonds							
Rates are as of: NZT							Sep-30 2.25 -0.06							
Source: Bloomberg							Sep-35 2.57 -0.06							
							Sep-40 2.76 -0.06							

NZD exchange rates

5/06/2024	7:01 am	Prev. NY close
USD	0.6181	0.6193
GBP	0.4836	0.4835
AUD	0.9293	0.9258
EUR	0.5680	0.5680
JPY	95.64	96.66
CAD	0.8456	0.8439
CHF	0.5499	0.5547
DKK	4.2366	4.2359
FJD	1.3953	1.3951
HKD	4.8290	4.8430
INR	51.63	51.49
NOK	6.5300	6.4757
PKR	172.02	171.02
PHP	36.30	36.34
PGK	2.3700	2.3755
SEK	6.4514	6.4451
SGD	0.8322	0.8335
CNY	4.4752	4.4850
THB	22.62	22.78
TOP	1.4265	1.4293
VUV	74.11	74.34
WST	1.6776	1.6835
XPF	67.91	68.06
ZAR	11.5703	11.4664



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.06	0.12
3 Months	-0.44	-0.03
6 Months	-2.83	-1.83
9 Months	-6.05	-4.05
1 Year	-9.90	-6.90

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-8.98	-8.45
3 Months	-24.91	-23.87
6 Months	-48.06	-45.50
9 Months	-68.17	-63.12
1 Year	-84.64	-77.37

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