

Research Markets Today

6 August 2024

Events Round-Up

CH: Caixin China PMI Services, Jul: 52.1 vs. 51.5 exp.
US: ISM Services Index, Jul: 51.4 vs. 51.0 exp.

Good Morning

Investor risk aversion continued to rise at the start of the trading week with large falls across global equity markets and other growth sensitive assets which contributed to safe haven flows into US treasuries. Asian stocks plunged with the Nikkei falling a further 12%, taking its decline over the past three trading sessions to almost 20%. Stocks fell across Europe and North America. The S&P, which was down more than 4% at one point managed to pare some of its losses but is still down 2.8% in afternoon trading.

The VIX index of implied S&P volatility rose to the highest level since November 2020 surpassing levels following the collapse of Silicon Valley Bank in March 2023. Investor sentiment has deteriorated rapidly on concerns about the slowdown in the US economy and sluggish corporate earnings. Rising geopolitical tensions also contributed to the risk-off tone following headlines that the US was advising allies that Iran may attack Israel in the next 24 hours.

The US services ISM rebounded from contractionary territory in June which eased fears about the extent of the economic slowdown and helped to stabilise sentiment. Services ISM increased to 51.4 in July, up from 48.8 in June, and slightly above consensus estimates. The business activity and new orders components strengthened although remain below long-term averages. The employment index picked up to 51.1 from 46.1 and prices paid increased modestly.

US treasury yields fell sharply in Asian trading. 2-year yields reached a low of 3.65%, and at one point, the repricing suggested a 60% chance of an emergency rate cut by the Fed over the coming week, according to reports by Bloomberg. However, yields recovered off the lows with the services ISM data assuaging some concerns about economic activity. 10-year yields reached a low of 3.67% - 10bps below Fridays close - but have since rebounded to be little changed at 3.79%.

The yen has continued to be the standout performer in FX markets with defensive currencies including the Swiss franc outperforming since the start of the week. Having opened near 146, USD/JPY traded below 142 but has since recovered in line with the stabilisation in risk sentiment. Despite the massive volatility across asset markets and large intra-day FX moves, G10 currencies are less than 0.5% away from levels at 5pm NZT yesterday against the US dollar.

NZD/USD fell sharply in early European trade, dropping almost a big figure in a few minutes, to reach a new 2024 low towards 0.5850. However, the recovery was equally sharp with the NZD only marginally softer against the US dollar. NZD/JPY has recovered from an overnight drop towards the low 83s and is now back above 85. NZD/AUD is little changed near 0.9140.

In commodity markets, Brent crude dipped towards US\$75 per barrel – the lowest level since January – but has since recovered towards US\$76. Price action suggests concerns about the outlook for global activity and demand for crude are outweighing the potential impact on supply from any escalations in the Middle East at this point.

NZ fixed income moved sharply lower in yield in the local session yesterday reflecting the moves in offshore markets in the absence of domestic data. 2-year swap rates moved significantly lower closing at 3.96%, a fall of 19bps on the day implying a more aggressive RBNZ easing path. A 25bps rate cut is now fully priced for the August Monetary Policy Statement next week and there is cumulative ~100bps of cuts priced by the November meeting. The curve has continued to steepen. 10-year swaps closed 7bps lower at 3.93%. 10-year government bond yields closed down 8bps at 4.16%.

Australian 10-year bond futures are currently little changed from the NZ close, suggesting limited directional bias for NZGB yields on the open.

There is no domestic data today. The Reserve Bank of Australia is unanimously expected its policy rate unchanged at 4.35%. The focus will be on updated forecasts and Governor Bullock's commentary in the press conference.

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Coming Up

		Period	Cons.	Prev.	NZT
JN	Cash Earnings - (y/y%)	Jun	3.5	2.3	11:30
AU	RBA Cash Rate Target	Aug	4.35	4.35	16:30
GE	Factory Orders (m/m%)	Jun	0.5	-1.6	18:00
US	Trade Balance	Jun	-72.5	-75	00:30

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	Net Day			
NZD	0.5934	-0.4	0.5894	0.5971	CHF	0.8506	-1.0	S&P 500	5,205	-2.7	16.2	Oil (Brent)	76.47	-0.5
AUD	0.6494	-0.2	0.6398	0.6512	SEK	10.561	-0.2	Dow	38,745	-2.5	10.5	Oil (WTI)	73.14	-0.6
EUR	1.0956	+0.4	1.0904	1.1008	NOK	11.035	+0.8	Nasdaq	16,171	-3.7	16.4	Gold	2401.7	-1.0
GBP	1.2763	-0.3	1.2728	1.2817	HKD	7.787	-0.3	Stoxx 50	4,572	-1.4	5.5	HRC steel	687.0	+0.9
JPY	143.72	-2.0	141.76	144.89	CNY	7.140	-0.4	FTSE	8,008	-2.0	5.9	CRB	270.1	-1.3
CAD	1.3833	-0.3			SGD	1.324	-0.2	DAX	17,339	-1.8	8.7	Wheat Chic.	564.8	+0.4
NZD/AUD	0.9138	-0.2			IDR	16,189	-0.1	CAC 40	7,149	-1.4	-2.3	Sugar	18.08	-0.1
NZD/EUR	0.5416	-0.8			THB	35.43	+0.3	Nikkei	31,458	-12.4	-2.3	Cotton	66.55	-1.0
NZD/GBP	0.4649	-0.1			KRW	1,370	+0.7	Shanghai	2,861	-1.5	-13.0	Coffee	225.7	-2.1
NZD/JPY	85.28	-2.4			TWD	32.65	-0.5	ASX 200	7,650	-3.7	4.4	WM powder	3055	+0.5
NZD/CAD	0.8209	-0.7			PHP	57.89	-0.4	NZX 50	12,264	-1.5	2.7	Australian Futures		
NZ TWI	69.29	-0.6						VIX Index	34.06	+45.6	+99.2	3 year bond	96.69	0.33
Interest Rates										10 year bond			96.09	0.03
Rates		Swap Yields			Benchmark 10 Yr Bonds		NZ Government Bonds		NZ BKBM and Swap Yields					
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day		Last	Chg		Last	Chg	
USD	5.50	5.49	3.71	3.33	USD	3.77	-0.02	15-May-26	4.08	-0.17	BKBM 1-mth	5.42	-0.11	
AUD	4.35	4.41	3.64	4.03	AUD	4.05	0.00	15-Apr-27	3.83	-0.18	BKBM 3-mth	5.33	-0.11	
NZD	5.50	5.33	3.96	3.93	NZD	4.16	-0.09	15-May-28	3.77	-0.16	1 year	4.54	-0.20	
EUR	3.75	3.62	2.75	2.52	GER	2.19	0.02	20-Apr-29	3.79	-0.15	2 year	3.96	-0.19	
GBP	5.00	5.30	4.08	3.58	GBP	3.87	0.04	15-May-30	3.85	-0.13	3 year	3.74	-0.16	
JPY	0.23	-0.03	0.39	0.86	JPY	0.79	-0.16	15-May-31	3.94	-0.11	5 year	3.69	-0.11	
CAD	4.50	4.97	3.19	2.93	CAD	3.00	-0.11	15-May-32	4.05	-0.10	7 year	3.78	-0.09	
								14-Apr-33	4.11	-0.09	10 year	3.93	-0.07	
								15-May-34	4.16	-0.09	15 year	4.09	-0.05	
								15-May-35	4.23	-0.07				
								15-May-37	4.38	-0.07				
								15-May-41	4.57	-0.07				
								15-May-51	4.63	-0.06				
								15-May-54	4.66	-0.06				

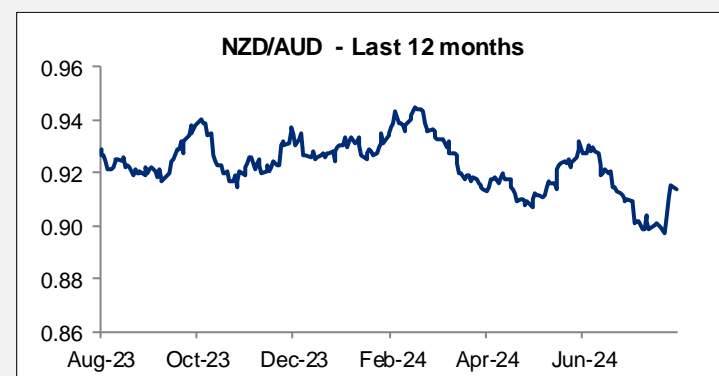
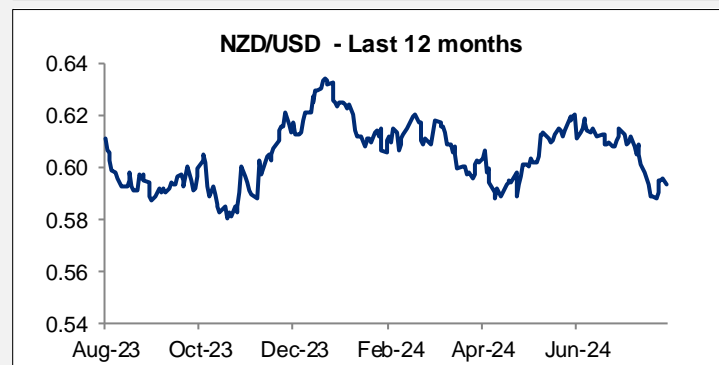
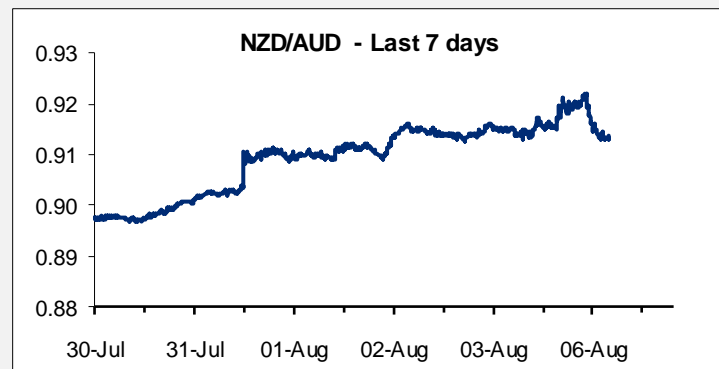
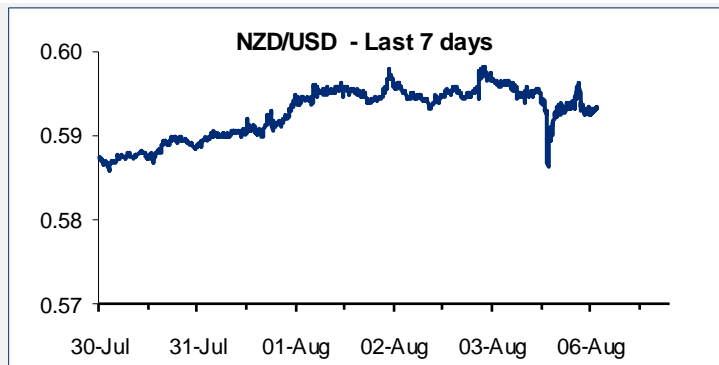
* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer

Rates are as of: NZT 06:43

Source: Bloomberg

NZD exchange rates

6/08/2024	6:44 am	Prev. NY close
USD	0.5934	0.5958
GBP	0.4649	0.4654
AUD	0.9138	0.9151
EUR	0.5416	0.5461
JPY	85.28	87.30
CAD	0.8209	0.8266
CHF	0.5047	0.5118
DKK	4.0418	4.0745
FJD	1.3392	1.3538
HKD	4.6209	4.6516
INR	49.75	49.90
NOK	6.5485	6.5200
PKR	165.41	165.75
PHP	34.35	34.62
PGK	2.2982	2.3066
SEK	6.2669	6.3037
SGD	0.7859	0.7905
CNY	4.2366	4.2732
THB	20.90	21.07
TOP	1.3787	1.3865
VUV	72.20	72.43
WST	1.6312	1.6423
XPF	65.06	65.46
ZAR	10.9841	10.8825



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	0.39	0.95
3 Months	0.13	0.95
6 Months	-1.47	0.04
9 Months	-3.39	0.42
1 Year	-4.61	-1.61

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-7.98	-6.67
3 Months	-18.33	-16.37
6 Months	-28.12	-24.32
9 Months	-32.04	-23.66
1 Year	-34.80	-22.10

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