

Research Markets Today

6 June 2024

Events Round-Up

NZ: Terms of trade (q/q%), Q1: 5.1 vs. 3.2 exp.
 JN: Labor cash earnings (y/y%), Apr: 2.1 vs. 1.8 exp.
 AU: GDP (q/q%), Q1: 0.1 vs. 0.2 exp.
 CH: Caixin PMI services, May: 54.0 vs. 52.5 exp.
 US: ADP employment change (k), May: 152 vs. 175 exp.
 CA: Bank of Canada policy rate (%), Jun: 4.75 vs. 4.75 exp.
 US: ISM services index, May: 53.8 vs. 51.0 exp.

Good Morning

Buoyant investor risk sentiment contributed to strong rallies across major equity indices. The S&P is up close to 1% in early afternoon trade, retesting the record high of 5342 reached back in May. The move was underpinned by gains in technology stocks. European stocks also had a strong session with the Stoxx up 1.6% ahead of the European Central Bank (ECB) meeting this evening. Price action was choppy in currency and bond markets amid mixed economic data. Global bond yields are lower.

The ADP measure of private US payrolls growth increased by 152k in May which was below consensus estimates for a gain of 175k. The relationship between the ADP data and nonfarm payrolls, which is released on Friday night (NZT), hasn't been particularly strong in recent months.

The US services ISM rebounded sharply. The index rose to 53.8, from 49.4 in April, as business activity and new orders growth strengthened. This was ahead of consensus estimates. However, survey respondents noted that high interest rates and inflation remain of concern. The employment subindex remained in contractionary territory at 47.1 while prices paid dipped to 58.1 from 59.2.

The Bank of Canada (BoC) cut rates by 25bps to 4.75% having been on hold since July of last year. The move was widely anticipated by economists and was almost fully discounted by the market. The Bank said it is 'reasonable to expect further cuts' if inflation eases and that policy settings 'no longer need to be as restrictive'. There is a close 50bps of easing priced by the end of the year. Canadian bonds rallied – 2-year yields fell 11bps to 3.94% - and the yield curve steepened following the decision.

The services sector in China unexpectedly expanded at the fastest pace in 10 months in May. The Caixin services PMI increased to 54.0 from 52.5 in April. The Caixin manufacturing PMI, released earlier in the week, was also stronger than expected. The pickup in Caixin indices, which are focused on small and medium size private enterprises, contrast with the relatively lacklustre official PMI readings.

US treasury yields moved lower in a parallel curve shift. Price action was choppy. A spike higher after the strong services ISM quickly reversed. 10-year treasuries are 3bps lower at 4.29% and have now dropped more than 30bps from the late May highs above 4.60%.

The US dollar was mixed but generally stronger against G10 currencies. In the majors, the yen fell 0.3% against the US dollar while the euro was little changed. The Canadian dollar dropped almost 0.5% following the BoC decision before paring its losses. The NZD was confined to a narrow range against the US dollar and is largely unchanged overnight. NZD/AUD continued to move higher, driven by the AUD leg, with the cross trading above 0.9300 to the highest level since the middle of March.

NZ fixed income yields moved lower across the curve in the local session yesterday with a bull flattening bias. 2-year swap rates fell 2bps to 5.04% while 10-year rates fell 6bps to 4.55%. The market took its cue from offshore in the absence of domestic catalysts. Australian 10-year bond futures are ~1bps lower in yield overnight suggesting a limited directional bias for NZGB yields on the open.

New Zealand Debt Management (NZDM) launched the syndicated tap of the 15 May 2028 nominal bond yesterday which will price today. NZDM expects to issue a minimum of NZ\$2.0 billion and the transaction will be capped at NZ\$4.0 billion. Given the timing of the launch, the weekly bond tender scheduled for today has been cancelled, as is normal practice.

The ECB is expected to cut rates by 25bps at its meeting this evening. Rather than the rates decision, the focus will centre on the future path for monetary easing and how the Bank communicates its decision. We expect the ECB will be non-committal on future easing and follow a data-dependent approach. There is a cumulative 65bps of easing priced by the end of the year.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Volume of All Buildings SA (q/q%)	1Q	-0.5	-0.1	10:45
AU	Home Loans Value (m/m%)	Apr	1.5	3.1	13:30
AU	Trade Balance (A\$ mn)	Apr	5400	5024	13:30
GE	Factory Orders (m/m%)	Apr	0.6	-0.4	18:00
EC	ECB Deposit Facility Rate	May	3.75	4	00:15
US	Trade Balance (\$bn)	Apr	-76.5	-69.4	00:30
US	Initial Jobless Claims	1 Jun	220	219	00:30

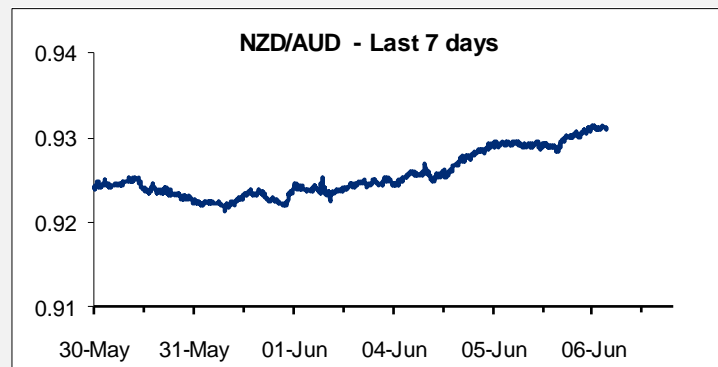
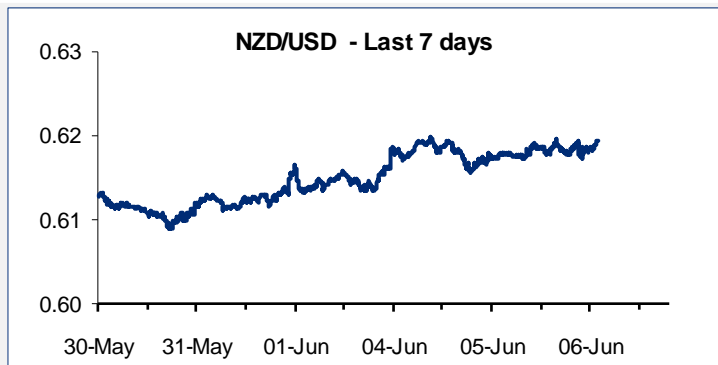
Source: Bloomberg, BNZ

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	0.6193	+0.3	0.6171	0.6198	CHF	0.8934	+0.3	S&P 500	5,340	+1.0	25.0	Oil (Brent)	78.41	+1.1
AUD	0.6651	+0.0	0.6626	0.6663	SEK	10.401	-0.4	Dow	38,822	+0.3	15.7	Oil (WTI)	74.07	+1.1
EUR	1.0871	-0.1	1.0855	1.0891	NOK	10.578	+0.1	Nasdaq	17,146	+1.7	29.6	Gold	2353.4	+1.2
GBP	1.2789	+0.2	1.2756	1.2795	HKD	7.811	-0.0	Stoxx 50	5,036	+1.7	17.3	HRC steel	741.0	+0.0
JPY	156.10	+0.8	155.72	156.48	CNY	7.248	+0.1	FTSE	8,247	+0.2	8.5	CRB	286.3	-1.0
CAD	1.3687	+0.1			SGD	1.348	+0.1	DAX	18,576	+0.9	16.4	Wheat Chic.	667.3	-1.9
NZD/AUD	0.9311	+0.2			IDR	16,287	+0.4	CAC 40	8,007	+0.9	11.2	Sugar	19.13	+1.5
NZD/EUR	0.5697	+0.4			THB	36.58	-0.1	Nikkei	38,490	-0.9	18.4	Cotton	74.44	+1.2
NZD/GBP	0.4842	+0.1			KRW	1,373	-0.2	Shanghai	3,065	-0.8	-4.1	Coffee	232.0	-0.8
NZD/JPY	96.67	+1.1			TWD	32.34	-0.2	ASX 200	7,769	+0.4	9.0	WM powder	3330	+1.2
NZD/CAD	0.8476	+0.3			PHP	58.80	+0.1	NZX 50	11,997	+1.0	1.0	Australian Futures		
NZ TWI	72.91	+0.3						VIX Index	12.77	-3.0	-13.3	3 year bond	96.07	0.04
												10 year bond	95.78	0.03
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	4.62	3.92	USD	4.29	-0.03	15-May-26	4.85	-0.03	BKBM 1-mth	5.60	0.00	
AUD	4.35	4.35	4.17	4.40	AUD	4.25	-0.06	15-Apr-27	4.68	-0.03	BKBM 3-mth	5.62	0.00	
NZD	5.50	5.62	5.04	4.55	NZD	4.67	-0.06	15-May-28	4.61	-0.04	1 year	5.47	-0.02	
EUR	4.00	3.77	3.28	2.75	GER	2.51	-0.02	20-Apr-29	4.55	-0.04	2 year	5.04	-0.02	
GBP	5.25	5.30	4.66	3.89	GBP	4.18	0.01	15-May-30	4.54	-0.05	3 year	4.77	-0.03	
JPY	0.08	-0.03	0.42	1.02	JPY	1.02	-0.01	15-May-31	4.58	-0.05	5 year	4.53	-0.04	
CAD	4.75	5.19	4.28	3.68	CAD	3.38	-0.07	15-May-32	4.62	-0.06	7 year	4.50	-0.05	
								14-Apr-33	4.64	-0.06	10 year	4.55	-0.06	
								15-May-34	4.67	-0.06	15 year	4.68	-0.06	
								15-May-35	4.72	-0.06				
								Sep-30	2.21	-0.04				
								Sep-35	2.53	-0.04				
								Sep-40	2.72	-0.04				
								15-May-41	4.94	-0.04				
								15-May-51	4.94	-0.03				
								15-May-54	4.97	-0.03				

* These are indicative r 06:42
 please confirm rates with your BNZ dealer
 Rates are as of: NZT
 Source: Bloomberg

NZD exchange rates

6/06/2024	6:42 am	Prev. NY close
USD	0.6193	0.6177
GBP	0.4842	0.4837
AUD	0.9311	0.9290
EUR	0.5697	0.5678
JPY	96.67	95.67
CAD	0.8476	0.8448
CHF	0.5533	0.5499
DKK	4.2494	4.2351
FJD	1.3964	1.3928
HKD	4.8373	4.8263
INR	51.64	51.59
NOK	6.5511	6.5263
PKR	172.35	170.58
PHP	36.41	36.28
PGK	2.3755	2.3685
SEK	6.4412	6.4503
SGD	0.8350	0.8319
CNY	4.4886	4.4723
THB	22.72	22.60
TOP	1.4273	1.4256
VUV	74.22	74.01
WST	1.6814	1.6764
XPF	68.08	67.88
ZAR	11.7287	11.5588



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.11	0.10
3 Months	-0.51	-0.10
6 Months	-3.37	-2.37
9 Months	-7.24	-5.24
1 Year	-11.81	-8.81

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-8.78	-8.28
3 Months	-25.66	-24.63
6 Months	-49.03	-46.44
9 Months	-68.64	-63.57
1 Year	-85.26	-77.68

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