

# Research Markets Today

7 August 2024

## Events Round-Up

JN: Cash earnings (same sample y/y%), Jun: 5.4 vs. 2.6 prev.

AU: RBA cash rate target, Aug: 4.35 vs. 4.35 exp.

GE: Factory orders (m/m%), Jun: 3.9 vs. 0.5 exp.

US: Trade balance (\$b), Jun: -73.1 vs. -72.5 exp.

## Good Morning

Risk appetite returned to the market, with global equities rebounding, US Treasury yields higher, the yen falling and commodity currencies outperforming. There has been no particular trigger other than investors deciding that the sharp moves over previous days were overdone. The NZD has settled around 0.5960 while NZD/AUD weakened after a more hawkish than expected update by the RBA.

After a few days of carnage, markets have swung back in the opposite direction. The 20% plunge in Japanese equities over three trading sessions had looked particularly overdone and yesterday the Nikkei 225 index bounced back by just over 10%. The extent of the moves suggests that algorithm trading has played some role in the market volatility. The US S&P500 and Nasdaq index have both recovered over 2%. The recovery in European equities has lagged, with the Euro Stoxx index up only 0.3% following its 6% drop over the prior three trading sessions.

After we went to print yesterday, a couple of Fed Presidents – Goolsbee and Daly – and didn't convey any sense of panic or need to embark on an intra-meeting rate cut, and their calming words might have contributed to the market settling. The market is still pricing a high chance of a 50bps cut at the next Fed meeting in September (45bps priced), and 106bps of cuts through to year-end. US Treasury yields are 7-10bps higher for day, with the 10-year rate currently trading at 3.88%, up 4bps since the NZ close.

Newsflow has been light, including on the economic front. German factory orders broke a string of five monthly declines, rebounding by a much stronger than expected 3.9% m/m in June and driven by a 9.1% surge in domestic orders. The positive news, following recent data showing Germany's economy struggling and underperforming other euro area countries, provides some hope that activity will

pick up over the second half. US trade data showed a mild narrowing in the trade deficit to \$73.1b in June.

NZ rates were marked higher yesterday as global rates reversed course, with next to no trading activity in NZGBs. The 10-year rate was up 7bps to 4.22%. Swap rates rose 4-8bps across the curve with a steepening bias.

After the NZ close, the RBA delivered a more hawkish policy update than widely anticipated, maintaining previous language that data "have reinforced the need to remain vigilant to upside risks to inflation" and the Board "is not ruling anything in or out". Governor Bullock pushed back against market pricing of near-term risk of rate cuts, said that "doesn't align with the Board's current thinking" and that markets "are a bit ahead of themselves". Australian rates and the AUD rose after the announcement, before global forces took over. Both the Australian 3-year and 10-year bond futures are up 4-6bps in yield terms since the NZ close.

In currency markets, the yen has shown the largest daily swing, with higher risk appetite seeing JPY underperform over the day, down over 1% since this time yesterday, while commodity currencies have outperformed. The NZD is trading at 0.5960, back to where it closed at the end of last week while the AUD is at 0.6530. NZD/AUD fell to a low just under 0.9085 in the aftermath of the RBA's announcement, before recovering most of its loss and it has since settled around 0.9125.

NZD/JPY has remained volatile, largely driven by the yen leg, and trades at 86.4. NZD/GBP is approaching 0.47 while NZD/EUR has recovered to 0.5450.

The GDT dairy auction overnight showed another small lift in the price index, up 0.5% following the 0.4% gain in the previous auction, with a 2.4% gain in whole milk powder offsetting a 2.7% fall in skim milk powder. Most other products rose in price, with a 2.4% fall in butter being the exception.

In US political news, Kamala Harris chose Tim Walz, current Minnesota Governor, as her running mate. He has wide support from within the Democratic party across various factions and is seen to appeal to moderate, working class and rural voters. The odds of the Democratic ticket winning the Presidential election continue to improve according to betting markets, up to a three-month high of 56%, according to PredictIt.

In the day ahead the domestic focus will be on NZ's labour market reports, which will likely show further deterioration, with falling employment and a lift in the unemployment rate, to around a fresh three-year high of 4.6-4.7%, just a stepping stone towards much higher levels over the coming year. Chinese trade data are released this afternoon while there are no notable releases tonight.

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### Coming Up

		Period	Cons.	Prev.	NZT
NZ	Unemployment rate (%)	Q2	4.7	4.3	10:45
NZ	Employment (q/q%)	Q2	-0.2	-0.2	10:45
NZ	LCI pvt wages x overtime (q/q%)	Q2	0.8	0.8	10:45
NZ	QES avg hrly earnings (q/q%)	Q2		0.3	10:45
CH	Exports (USD, y/y%)	Jul	9.1	8.6	
CH	Imports (USD, y/y%)	Jul	3.0	-2.3	

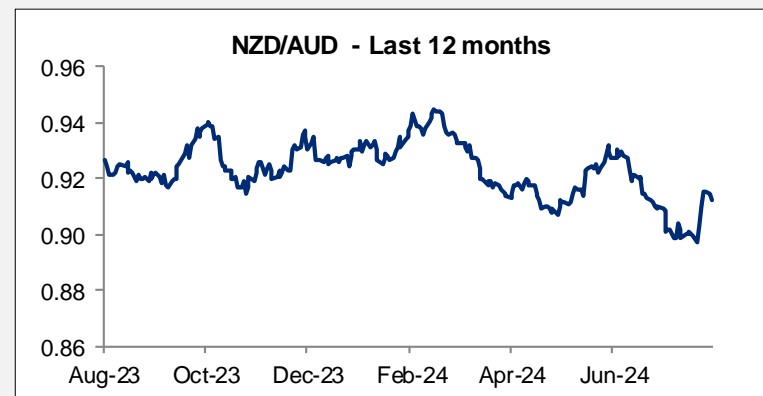
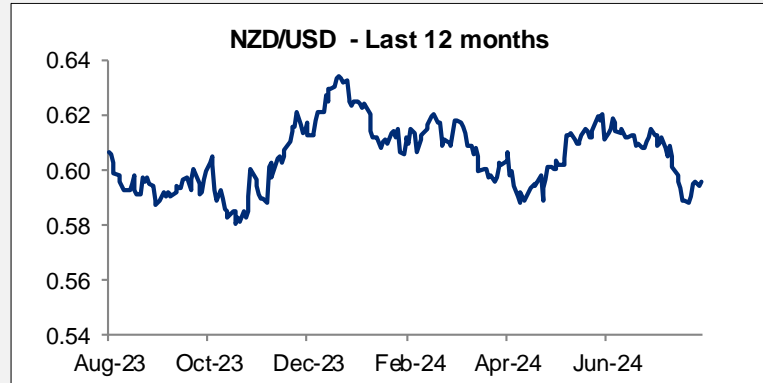
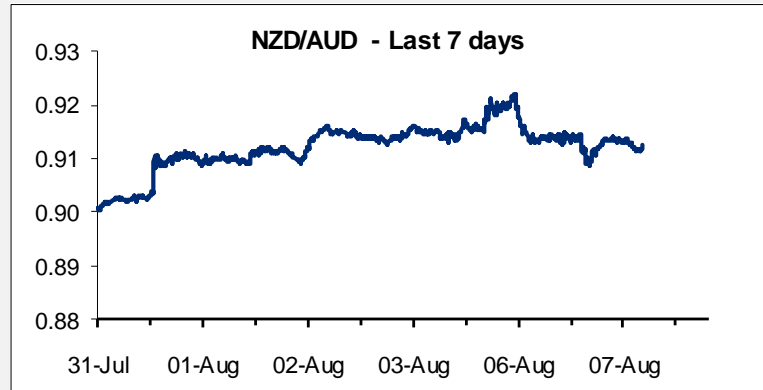
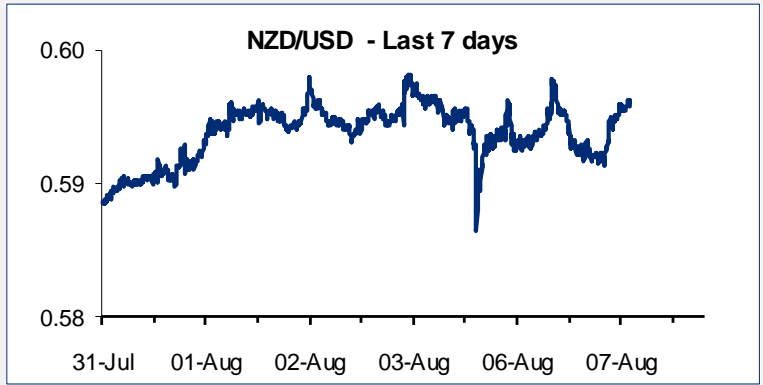
Source: Bloomberg, BNZ

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	+0.3	0.5913	0.5964	CHF	0.8531	+0.1		S&P 500	5,310	+2.4	18.6	Oil (Brent)	76.56	+0.4
AUD	0.6530	+0.5	0.6473	0.6542	SEK	10.525	-0.4		Dow	39,249	+1.4	11.9	Oil (WTI)	73.29	+0.5
EUR	1.0927	-0.2	1.0904	1.0941	NOK	10.904	-1.1		Nasdaq	16,519	+2.0	18.9	Gold	2392.7	-0.4
GBP	1.2694	-0.6	1.2673	1.2760	HKD	7.794	+0.1		Stoxx 50	4,575	+0.1	5.6	HRC steel	685.0	-0.3
JPY	144.99	+0.6	144.05	145.93	CNY	7.156	+0.2		FTSE	8,027	+0.2	6.1	CRB	268.8	-0.5
CAD	1.3771	-0.4			SGD	1.326	+0.0		DAX	17,354	+0.1	8.8	Wheat Chic.	567.5	+0.8
NZD/AUD	0.9124	-0.2			IDR	16,165	-0.2		CAC 40	7,130	-0.3	-2.5	Sugar	17.87	-1.2
NZD/EUR	0.5453	+0.5			THB	35.46	+0.0		Nikkei	34,675	+10.2	7.5	Cotton	66.20	+0.2
NZD/GBP	0.4694	+0.9			KRW	1,378	+0.6		Shanghai	2,867	+0.2	-12.3	Coffee	236.0	+4.5
NZD/JPY	86.39	+0.8			TWD	32.71	+0.2		ASX 200	7,681	+0.4	5.1	WM powder	3040	-0.5
NZD/CAD	0.8205	-0.1			PHP	57.82	-0.1		NZX 50	12,246	-0.2	2.6	<b>Australian Futures</b>		
NZ TWI	69.64	+0.4						VIX Index	24.06	-37.6	+40.7	3 year bond	96.40	-0.29	
												10 year bond	95.96	-0.13	
Interest Rates							NZ Government Bonds				NZ BKBM and Swap Yields				
	Rates				Benchmark 10 Yr Bonds			Last	Chg		Last	Chg			
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day									
USD	5.50	5.39	3.79	3.45	USD	3.89	0.10	15-May-26	4.14	0.06	BKBM 1-mth	5.43	0.01		
AUD	4.35	4.35	3.81	4.15	AUD	4.02	-0.03	15-Apr-27	3.90	0.06	BKBM 3-mth	5.32	-0.01		
NZD	5.50	5.32	4.01	3.97	NZD	4.22	0.07	15-May-28	3.85	0.09	1 year	4.57	0.04		
EUR	3.75	3.58	2.72	2.51	GER	2.20	0.01	20-Apr-29	3.88	0.10	2 year	4.01	0.05		
GBP	5.00	5.30	4.10	3.62	GBP	3.92	0.05	15-May-30	3.94	0.09	3 year	3.80	0.06		
JPY	0.23	-0.03	0.38	0.87	JPY	0.90	0.11	15-May-31	4.04	0.09	5 year	3.77	0.08		
CAD	4.50	4.97	3.26	3.03	CAD	3.11	0.11	15-May-32	4.13	0.08	7 year	3.85	0.08		
								14-Apr-33	4.18	0.07	10 year	3.97	0.05		
								15-May-34	4.22	0.07	15 year	4.14	0.04		
								15-May-35	4.29	0.05					
								15-May-37	4.42	0.04					
								15-May-41	4.60	0.03					
								15-May-51	4.66	0.03					
								15-May-54	4.69	0.03					

\* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer  
 Rates are as of: NZT 07:03  
 Source: Bloomberg

**NZD exchange rates**

7/08/2024	7:03 am	Prev. NY close
USD	0.5958	0.5941
GBP	0.4694	0.4650
AUD	0.9124	0.9143
EUR	0.5453	0.5425
JPY	86.39	85.66
CAD	0.8205	0.8213
CHF	0.5083	0.5063
DKK	4.0688	4.0477
FJD	1.3522	1.3484
HKD	4.6436	4.6273
INR	50.02	49.81
NOK	6.4965	6.5469
PKR	165.81	165.28
PHP	34.46	34.40
PGK	2.3084	2.3018
SEK	6.2707	6.2748
SGD	0.7898	0.7873
CNY	4.2634	4.2416
THB	21.17	20.93
TOP	1.4012	1.3953
VUV	72.54	72.28
WST	1.6395	1.6271
XPF	65.41	65.11
ZAR	11.0098	11.0042



**NZD/USD Forward Points**

	BNZ buys NZD	BNZ sells NZD
1 Month	0.55	0.95
3 Months	0.38	1.18
6 Months	-1.29	0.54
9 Months	-2.94	0.40
1 Year	-4.31	-1.29

**NZD/AUD Forward points**

	BNZ buys NZD	BNZ Sells NZD
1 Month	-7.23	-6.43
3 Months	-17.69	-16.03
6 Months	-25.83	-22.05
9 Months	-27.91	-20.72
1 Year	-26.28	-18.46

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