

Research Markets Today

7 November 2024

Events Round-Up

NZ: LCI Pvt wages x overtime (q/q%), Q3: 0.6 vs. 0.7 exp.

NZ: Employment (q/q%), Q3: -0.5 vs. -0.4 exp.

NZ: Participation rate (%), Q3: 71.2 vs. 71.5 exp.

NZ: Unemployment rate (%), Q3: 4.8 vs. 5.0 exp.

GE: Factory orders (m/m%), Sep: 4.2 vs. 1.5 exp.

Good Morning

In the wake of a decisive victory for Trump and the Republican party at the US elections, market movements have been significant. US equities are up over 2% to a fresh record high, US Treasury yields are higher led by the long end with the 30-year rate up 20bps, and the USD is broadly stronger. While the NZD is down just over 1%, it has outperformed, with the drag from EM currencies including the yuan offset by the higher risk appetite backdrop.

The votes are in and are still being counted but Trump is the clear victor. In the end the polls were largely right, that the result would be closely fought in the key battleground states – Trump just happened to win all of them (subject to final counts) – and prediction markets correctly called a Trump victory. Trump also likely won the popular vote, with widespread gains, with the Republican margin gaining in all but two of the 50 states. Without doubt, Americans voted for Trump 2.0, giving him a clear mandate to enact his policies. The Republican party also won a slim majority in the Senate race. The House race is still too close to call but a clean sweep for the Republican party could well result, easing the path for Trump to enact his policies.

Markets sniffed a Trump victory not long after the count began during NZ afternoon trading, driving markets, with higher US equity futures, higher US rates and a broadly stronger USD. Much of the movement was seen during Asia trading hours, with signs of consolidation in overnight trading. Running through the key market movements:

US equities are up strongly, with the S&P500 up over 2% in early afternoon trading, led by Financials (Banks up over 10%), Industrials, Energy and Consumer Discretionary sectors – a clear sign that the market anticipates stronger economic growth ahead, although interestingly some economists have already begun to trim their US GDP growth forecasts. Interest rate sensitive and defensive sectors Utilities, Consumer Staples and Real Estate are all

weaker. Small cap stocks have outperformed, with the Russell 2000 index up nearly 5%. Trump's "America First" policy means that higher US equities haven't spilled over into other markets, with the Euro Stoxx 600 index down 0.5%. Other European (UK, Swiss) markets are down slightly, Brazil is down modestly, while Mexico and Canada show only modest gains.

US Treasury yields are higher led by the long end, with the 2-year rate currently up 10bps, 5-year rate up 13bps, 10-year rate up 17bps to 4.44%, and the 30-year rate up 20bps. This reflects the prospect of higher inflation, higher term premia and reduced scope for easier Fed policy. While a 25bps Fed rate tomorrow is still baked in, the market anticipates a total of 105bps of cuts through the end of next year (including tomorrow's cut), pared from 117bps as of yesterday's close.

As with the equity market, these much higher rates are confined to the US market. Germany's 10-year rate is down 2bps, France is up 2bps and with underperformance of peripheral markets (Italy +6bps, Spain and Portugal +2bps). UK's 10-year rate is up 3bps.

In currency markets, the USD is up strongly, with the DXY index up 1.6%. Comparing rates with the prior NY close (11am NZ time yesterday, just ahead of the polls beginning to close), JPY and EUR have been the weakest of the majors, the former reflecting the higher US rates backdrop and the latter reflecting tougher trade policies ahead. USD/JPY is up 2% to 154.65, EUR is down 1.8% to 1.0730.

Commodity currencies have outperformed – Canada's strong ties to the US seeing USD/CAD up "only" 0.9%, while the NZD and AUD have fallen a little over 1%, with the drag from China being a target offset by higher risk appetite. The NZD traded a low of 0.5912 yesterday evening and has consolidated overnight to 0.5940. Our fear of support of 0.5850 being tested on a Trump victory hasn't been threatened, although it's early days on market digestion of Trump 2.0. The AUD has fallen to 0.6570 while NZD/AUD is little changed at 0.9050. On other crosses, the NZD is solidly higher against JPY and EUR, up smalls against GBP and down modestly against CAD.

In terms of other key currency moves, USD/CNY is up 1% to 7.1750 and USD/CNH is up 1.4% to 7.20. Mexico's peso fell over 3% but its loss has since pared to around 1%. Bitcoin rose to a record high above \$75k and is currently up 8%, just below the figure.

After writing endlessly over recent months about whether Trump would or wouldn't win the race, over coming months the focus will be on the likely policy outcomes. In Trump's victory speech he said he would keep his election promises – tightening immigration, raising import tariffs, and cutting taxes are all high on his agenda. It is widely acknowledged that Trump will be able to move faster than he did in his first term to enact these policies, but nothing can happen until after his inauguration in January.

For NZ, the most obvious impacts to think about and rework into our projections are a weaker-for-longer NZD, and spillover effects from a weaker Chinese economy, hit by punishing import tariffs and the wider global trade implications. There remains high uncertainty about the path of tariffs – the phasing of them and scope for negotiation – and there are also other factors to consider, such as the higher odds now of China adopting a much looser fiscal stance to support its economic growth outlook.

Yesterday, NZ labour market data painted a picture falling employment and reduced labour force participation, with the net result being a lift in the unemployment rate to a four-year high of 4.8%. A larger fall in participation softened the increase in unemployment compared to expectations. Meanwhile wage inflation was slightly weaker than expected, with the 0.6% q/q lift in private sector ordinary time earnings the weakest in over three years. We saw the data as cementing in expectations for another 50bps rate cut later this month, but not necessitating stepping up the pace to 75bps.

The domestic rates market was quiet, with focus on the US election results coming in. Rates moved higher during the session as US Treasuries were hit. NZGB yields rose 11-13bps across the curve while swap rates were up 13-14bps. Since the NZ close, Australia's 10-year bond future is down 4bps in yield terms.

In the day ahead, wage data in Japan, China trade data and US productivity and jobless claims data will be on the radar. The BoE meets tonight and economists see a 25bps rate cut as a given and that is almost fully priced. The loose Budget recently dampened enthusiasm on the scope for further cuts so expect the interaction between fiscal and monetary policy to get some airtime regarding the outlook.

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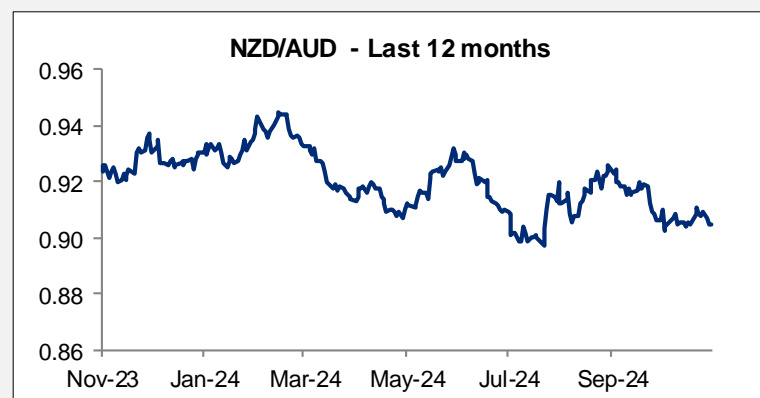
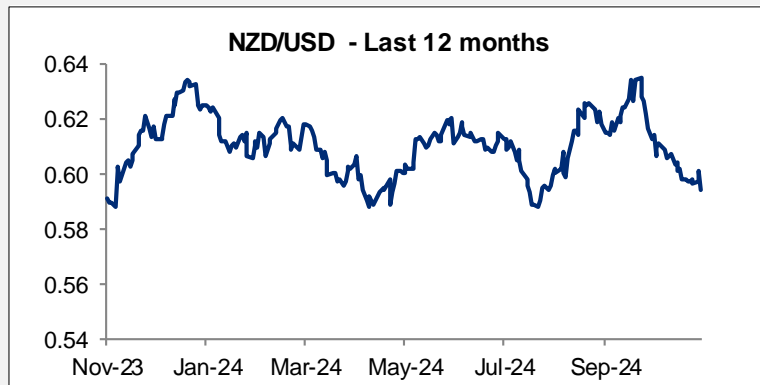
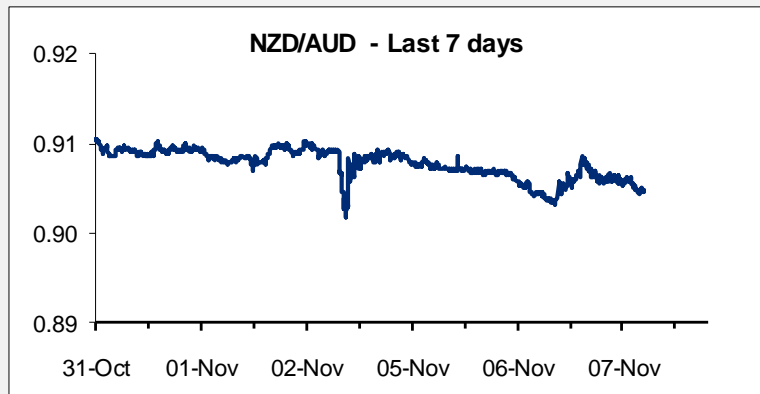
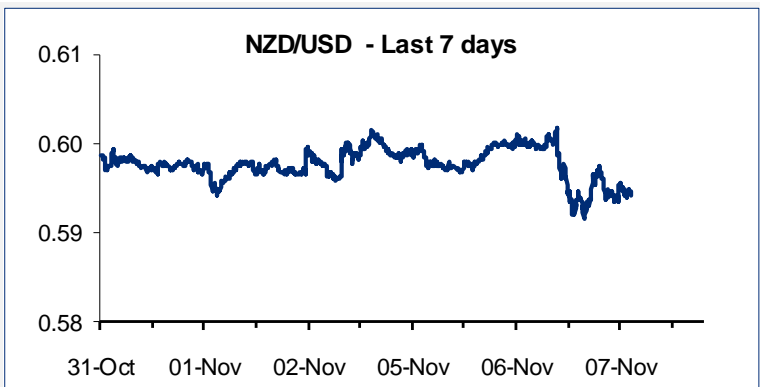
Coming Up

		Period	Cons.	Prev.	NZT
JN	Full-time pay -same base (y/y%)	Sep	2.9	2.9	12:30
AU	Trade balance (\$m)	Sep	5274	5644	13:30
CH	Exports (USD, y/y%)	Oct	5.0	2.4	
CH	Imports (USD, y/y%)	Oct	-2.0	0.3	
GE	Industrial production(m/m%)	Sep	-1.0	2.9	20:00
UK	Bank of England bank rate (%)	Nov	4.75	5.0	01:00
US	Nonfarm productiv. (ann. q/q%)	Q3	2.5	2.5	02:30
US	Initial jobless claims (k)	2-Nov	223	216	02:30

Source: Bloomberg, BNZ

NZD exchange rates

7/11/2024	7:02 am	Prev. NY close
USD	0.5945	0.6007
GBP	0.4611	0.4606
AUD	0.9047	0.9049
EUR	0.5541	0.5496
JPY	91.93	91.08
CAD	0.8287	0.8304
CHF	0.5209	0.5186
DKK	4.1321	4.0989
FJD	1.3408	1.3612
HKD	4.6228	4.6691
INR	50.10	50.52
NOK	6.5834	6.5784
PKR	165.19	166.78
PHP	34.88	35.04
PGK	2.3507	2.3734
SEK	6.4519	6.4293
SGD	0.7930	0.7896
CNY	4.2657	4.2678
THB	20.31	20.19
TOP	1.3762	1.3993
VUV	71.82	72.70
WST	1.6239	1.6420
XPF	66.04	65.83
ZAR	10.4794	10.4519



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	1.13	1.47
3 Months	5.39	5.91
6 Months	13.13	14.55
9 Months	22.07	24.11
1 Year	29.83	32.83

NZD/AUD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.58	0.17
3 Months	3.00	4.31
6 Months	14.49	17.65
9 Months	30.60	35.52
1 Year	44.99	52.63

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