

# Research Markets Today

7 October 2024

## Events Round-Up

AU: Home loans value (m/m%), Aug: 1.0 vs. 1.0 exp.

US: Change in nonfarm payrolls (k), Sep: 254 vs. 150 exp.

US: Unemployment rate (%), Sep: 4.1 vs. 4.2 exp.

US: Average hrly earnings (m/m%), Sep: 0.4 vs. 0.3 exp.

US: Average hrly earnings (y/y%), Sep: 4.0 vs. 3.8 exp.

## Good Morning

Stronger than expected US labour market data contributed to large moves across financial markets into the end of last week. US treasuries led global bond yields higher as investors recalibrated expectations for easing by the Federal Reserve. The US dollar made broad based gains which saw NZD/USD trade below 0.6150. The prospect of a soft landing for the US economy outweighed concerns about escalating tensions in the Middle East and supported equity markets with the S&P advancing close to 1%. Brent crude prices reached US\$79 per barrel before pulling back but are still ~9% higher over last week.

US nonfarm payrolls increased by 254k in September which was higher than even the most optimistic estimate on the Bloomberg panel of economists. In addition, there was an upward revision of 72k across the previous two months. The unemployment rate fell to 4.1% and average hourly earnings increased 4% from a year earlier. The report is likely to alleviate concerns that the labour market is deteriorating though investors won't want to put too much weight on a single data point.

The market recalibrated its expectations for the November FOMC. There is now 25bps of easing priced compared with 33bps ahead of the data. Current market pricing aligns with Fed chair Powell's signal last week that the central bank would likely revert to a 25bps interest rate cut at its November meeting. There is 55bps of Fed rate cuts priced by December, which is in line with member's median projection, from the September FOMC contained in the 'dot plot'.

US treasury yields, which were at the highest level in several weeks in the leadup to the payrolls report, spiked in the aftermath. 2-year yields jumped 22bps to 3.92%, the highest level since early September and more than 40bps above the recent lows. The curve bear flattened with 10-year yields increasing 12bps to 3.97%. The 2y/10y treasury

curve, which peaked above 20bps in late September has retraced back to 5bps. European bonds followed the move in treasuries with higher yields and flatter curves. 10-year bund yields increased 7bps to 2.21%.

The US dollar made broad based gains against G10 currencies with the dollar index (DXY) gaining close to 0.5%. The DXY has rebounded strongly in over the past week and is now 2.5% above the recent lows. The yen underperformed given its sensitivity to moves in US treasuries. On the other end of the scale, the pound was little changed against the dollar after the Bank of England's chief economist, said the Bank should not cut interest rates 'too far or too fast'.

The NZD was amongst the worst G10 performers and declined close to 1% against the dollar, trading back below 0.6150, and marking a sharp retracement from the recent high near 0.6380 at the beginning of last week. The NZD was weaker on most key cross rates except for the yen. NZD/AUD extended recent losses below 0.9060 and NZD/GBP slipped below 0.4700.

It was a relatively quiet session for NZ fixed income in the local session on Friday. The yield curve continued to steepen with the front end little changed – 2-year swaps closed at 3.56% - while there were larger increases further out the curve reflecting moves in offshore markets. the 2y/10y swaps curve traded to a fresh cycle high of 36bps. Front and intermediate government yields were little changed with 10-year bonds closing at 4.27%. However, the long end of the curve continued to steepen with the 10y/30y NZGB curve reaching 67bps.

Australian 10-year government bond futures are 11bps higher in yield terms since the local close on Friday, and combined with the mover in US treasuries suggests an upward bias for NZ yields on the open.

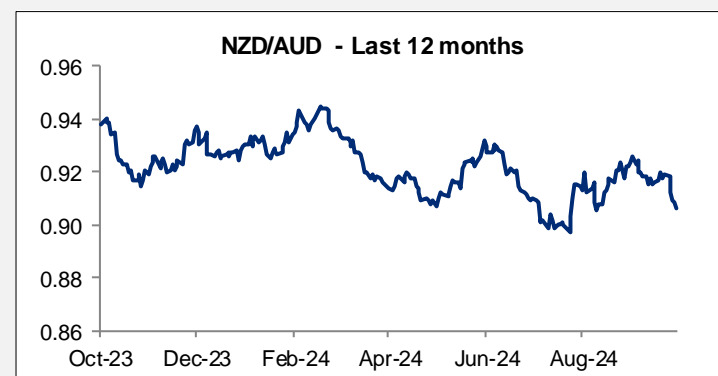
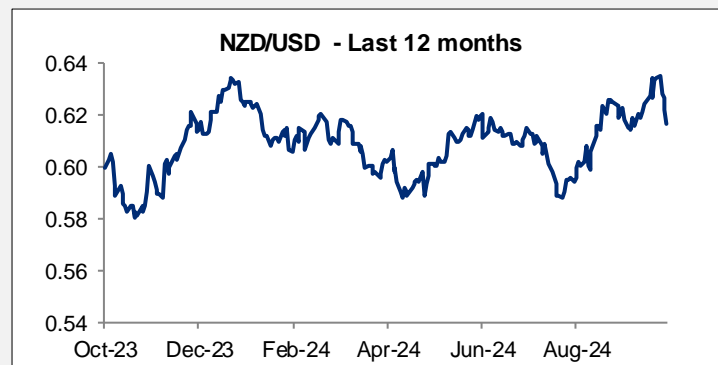
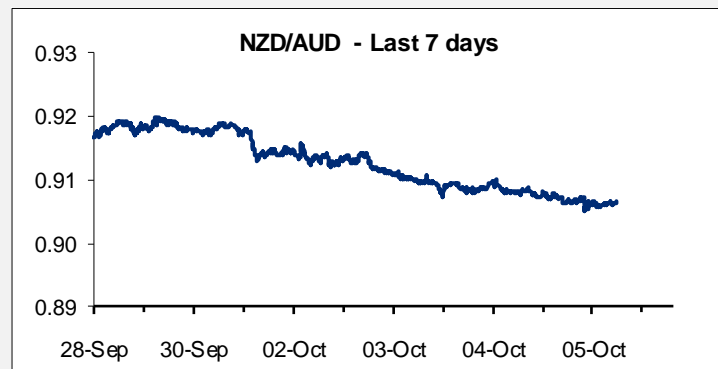
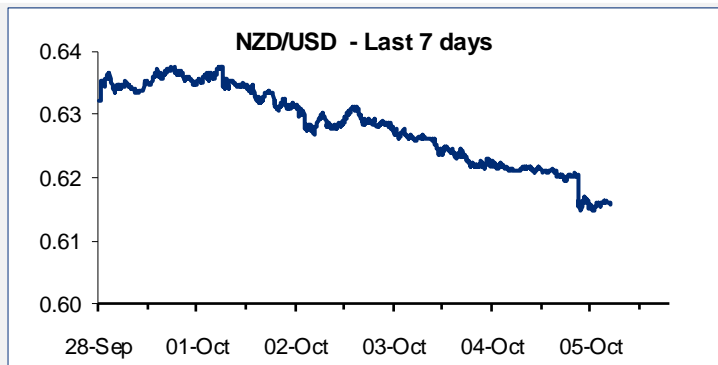
It is a quiet beginning to the week with no domestic or regional economic releases. The only data of note is German factory orders. Looking ahead to the remainder of the week, the domestic focus will be the RBNZ's Monetary Policy Review alongside inflation partials and the manufacturing PMI. The highlight on the international calendar is US CPI and PPI data for September.

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**NZD exchange rates**

5/10/2024	NY close	Prev. NY close
USD	0.6159	0.6213
GBP	0.4694	0.4734
AUD	0.9064	0.9083
EUR	0.5611	0.5632
JPY	91.57	91.29
CAD	0.8362	0.8422
CHF	0.5287	0.5299
DKK	4.1830	4.2013
FJD	1.3626	1.3752
HKD	4.7836	4.8239
INR	51.72	52.17
NOK	6.5640	6.5909
PKR	171.48	173.19
PHP	34.67	35.04
PGK	2.4162	2.4374
SEK	6.3853	6.4032
SGD	0.8034	0.8061
CNY	4.3228	4.3560
THB	20.35	20.56
TOP	1.4030	1.4449
VUV	73.10	73.38
WST	1.6508	1.6661
XPF	66.89	67.06
ZAR	10.7712	10.8807



**NZD/USD Forward Points**

	BNZ buys NZD	BNZ sells NZD
1 Month	1.19	1.48
3 Months	3.34	3.97
6 Months	5.81	6.81
9 Months	9.47	14.47
1 Year	18.43	21.44

**NZD/AUD Forward points**

	BNZ buys NZD	BNZ Sells NZD
1 Month	-2.71	-2.19
3 Months	-3.97	-2.63
6 Months	0.79	3.29
9 Months	10.24	19.50
1 Year	29.16	36.67

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