

Research Markets Today

8 August 2024

Events Round-Up

NZ: Unemployment rate (%), Q2: 4.6 vs. 4.7 exp.
 NZ: Employment (q/q%), Q2: 0.4 vs. -0.2 exp.
 NZ: LCI pvt wages x overtime (q/q%), Q2: 0.9 vs. 0.8 exp.
 CH: Exports (USD, y/y%), Jul: 7.0 vs. 9.5 exp.
 CH: Imports (USD, y/y%, Jul: 7.2 vs. 3.2 exp.
 GE: Industrial production (m/m%), Jun: 1.4 vs. 1.0 exp.

Good Morning

Risk appetite recovered further, although in the past few hours the VIX index has been tracking higher and early US equities gains have morphed into losses. US Treasury yields have pushed higher and the NZD has outperformed, sustaining most of the gain seen after yesterday's labour market data.

After the wild ride in markets that began just over a week ago, for a second session some sense of normality has returned. Getting some attention in afternoon trading yesterday was a speech by BoJ deputy Governor Uchida, the first public BoJ comments since last week's rate hike. His comments were interpreted as dovish by the market, where he said that "the bank will not raise its policy interest rate when financial and capital markets are unstable".

The yen significantly weakened after his comments and risk appetite recovered further, although one might say that the market is reading too much into his comments. After all, the next BoJ meeting seen to be live is still over twelve weeks away and market conditions are likely to be quite different by then. As headlined by the FT, wiser heads argue that the unwinding of the yen carry trade still threatens markets. While no one exactly knows how big the yen carry trade had become, the general view is that there is still some way to go.

Apart from Uchida's speech, newsflow has been light. The weaker yen helped support a gain of 1.2% for the Nikkei 225 index while the Euro Stoxx 600 index closed up 1.5%. In the US, the S&P500 index was up as much as 1.7% in early morning trading but the gain has since been eroded and it is down 0.6% as we go to print.

Global rates are higher and the US Treasuries curve showing a steepening bias, with the 2-year rate up 3bps to

4% and the 10-year rate up 8bps to 3.97%. Not helping the long end, an auction of \$42b of 10-year Treasuries showed tepid interest, with a bid-cover ratio of 2.32, the lowest since December 2022 and issued at 3.96%, just over 3bps higher compared to the prevailing market rate. The market will have to absorb \$25b of 30-year bonds tomorrow.

Oil prices are up over 2½% with Brent crude trading back over USD78 per barrel. Higher risk appetite is likely behind some of the move, while traders are also keeping a close eye on developments in the Middle East after Iran's promise to retaliate against Israel following the assassinations of Hezbollah and Hamas leaders. Trump said that he will immediately fill up the US Strategic Petroleum Reserve if he becomes President. The SPR is at its lowest level since 1983 and filling it up would add hundreds of millions of barrels to demand.

In currency markets, as noted the yen weakened significantly after Uchida's comments and most of that weakness has been sustained. USD/JPY is up 1.7% for the day and currently trades at 146.90. NZD/JPY is up 2½% to 88.0, with the NZD outperforming on higher risk appetite and with an added boost following yesterday's labour market data (see below). From around 0.5950, the NZD traded a high of 0.6025 overnight and it currently sits just under 0.60. The AUD recovered to a high of 0.6575 overnight and has since fallen back down to 0.6515. NZD/AUD is higher but meeting some resistance just under 0.92. The NZD continues to recover against GBP and EUR, currently 0.4725 and just under 0.55 respectively.

NZ labour market data didn't help answer the question whether the RBNZ will kick start the easing cycle next week, even if most followers agree that easier policy is entirely appropriate, with the economy mired in recession and inflation falling steadily towards target. The HLFS showed unemployment rate rising to a fresh three year high of 4.6%, in line with the Bank's May projection, while employment surprisingly rose by 0.4% q/q. Both figures conveyed a slightly stronger labour market than the market expected, but digging deeper the first quarterly contraction in hours worked in almost three years – down a notable 1.2% q/q – and a 0.5% fall in filled jobs measured by the separate QES both seemed more consistent with the message from previously released labour market indicators.

By the close the OIS market was pricing in a close to an even bet for a 25bps rate cut next week and there was a

further paring of rate cut expectations for future meetings. Still, the market prices in 125bps of cuts for the next four meetings through to February, suggesting that a 50bps cut will be thrown into the mix at some stage. Near term bill futures were up 14-15bps in yield terms and the aggressive sell-off at the short end resulted in the 2-year swap rate closing up 13bps to 4.14% and the 10-year rate up 9bps. The NZGB curve showed a similar flattening bias and rate moves.

In the day ahead, RBA Governor Bullock will be speaking this afternoon talking about the Australian economy through a "regional lens", the RBNZ releases its survey of

expectations, with 2-year inflation expectations likely to show further decline, and US jobless claims data tonight.

jason.k.wong@bnz.co.nz

Coming Up

	Period	Cons.	Prev.	NZT
AU	Speech by RBA Governor Bullock			14:40
NZ	2yr inflation expectations (%)	Q3	2.33	15:00
US	Initial jobless claims (k)	3-Aug	240	249 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	% Day	% Year		Last	Net Day				
NZD	0.5990	+0.6	0.5990	0.6025	CHF	0.8621	+1.2		S&P 500	5,216	-0.5	15.4	Oil (Brent)	78.33	+2.5			
AUD	0.6516	-0.0	0.6514	0.6575	SEK	10.483	-0.4		Dow	38,787	-0.6	9.3	Oil (WTI)	75.21	+2.8			
EUR	1.0920	-0.1	1.0909	1.0937	NOK	10.815	-1.0		Nasdaq	16,245	-0.8	16.2	Gold	2388.2	-0.0			
GBP	1.2685	-0.0	1.2684	1.2736	HKD	7.798	+0.0		Stoxx 50	4,668	+2.0	7.6	HRC steel	684.0	-0.1			
JPY	146.96	+1.8	146.10	147.68	CNY	7.177	+0.3		FTSE	8,167	+1.7	8.1	CRB	270.2	+0.5			
CAD	1.3747	-0.3			SGD	1.328	+0.2		DAX	17,615	+1.5	10.4	Wheat Chic.	563.3	-0.6			
NZD/AUD	0.9193	+0.7			IDR	16,035	-0.8		CAC 40	7,266	+1.9	-0.7	Sugar	18.14	+1.5			
NZD/EUR	0.5485	+0.7			THB	35.62	+0.5		Nikkei	35,090	+1.2	8.4	Cotton	66.47	+0.5			
NZD/GBP	0.4722	+0.7			KRW	1,375	-0.2		Shanghai	2,870	+0.1	-12.0	Coffee	246.3	+3.9			
NZD/JPY	88.03	+2.4			TWD	32.68	-0.1		ASX 200	7,700	+0.2	5.3	WM powder	3140	+3.3			
NZD/CAD	0.8234	+0.4			PHP	57.54	-0.5		NZX 50	12,326	+0.7	3.9	Australian Futures					
NZ TWI	70.17	+0.8						VIX Index	28.53	+3.0	+80.9	3 year bond	96.35	-0.05				
												10 year bond	95.86	-0.08				
Interest Rates								NZ Government Bonds				NZ BKBM and Swap Yields						
Rates		Swap Yields		Benchmark 10 Yr Bonds				Last		Chg		Last		Chg				
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day											
USD	5.50	5.32	3.81	3.52	USD	3.97	0.08	15-May-26	4.27	0.13		BKBM 1-mth	5.45	0.02				
AUD	4.35	4.39	3.88	4.25	AUD	4.08	0.06	15-Apr-27	4.00	0.10		BKBM 3-mth	5.35	0.03				
NZD	5.50	5.35	4.14	4.07	NZD	4.31	0.09	15-May-28	3.96	0.11		1 year	4.70	0.13				
EUR	3.75	3.52	2.75	2.56	GER	2.27	0.07	20-Apr-29	3.98	0.10		2 year	4.14	0.13				
GBP	5.00	5.30	4.08	3.63	GBP	3.95	0.03	15-May-30	4.04	0.10		3 year	3.92	0.12				
JPY	0.23	-0.03	0.39	0.89	JPY	0.90	-0.00	15-May-31	4.13	0.09		5 year	3.88	0.11				
CAD	4.50	4.97	3.28	3.08	CAD	3.17	0.05	15-May-32	4.21	0.09		7 year	3.95	0.10				
								14-Apr-33	4.26	0.09		10 year	4.07	0.09				
								15-May-34	4.31	0.09		15 year	4.24	0.10				
								15-May-35	4.37	0.09								
								15-May-37	4.51	0.09								
								15-May-41	4.68	0.08								
								15-May-51	4.74	0.08								
								15-May-54	4.77	0.08								
* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer																		
Rates are as of: NZT 06:59																		
Source: Bloomberg																		

NZD exchange rates

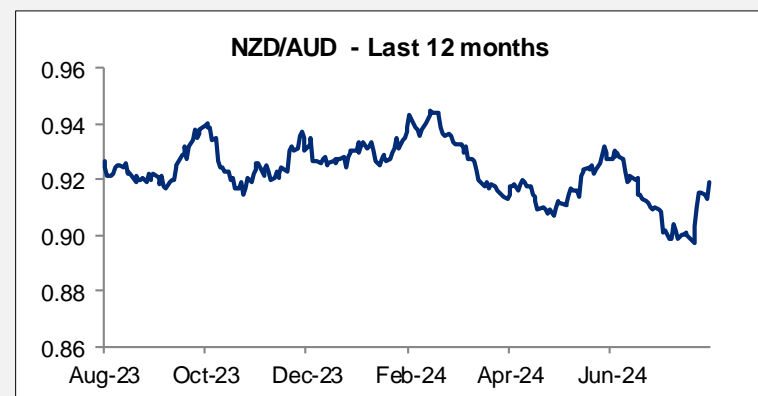
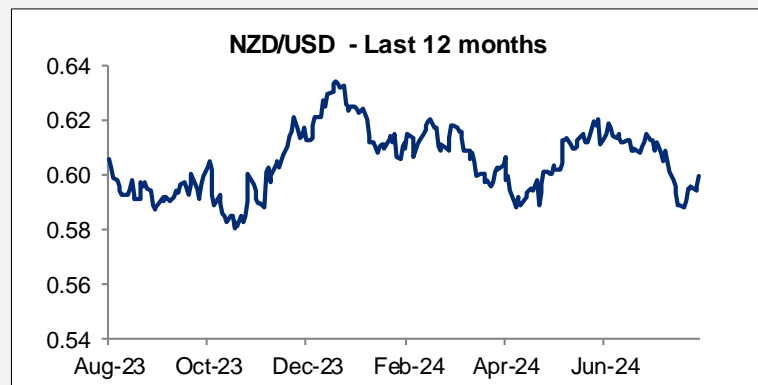
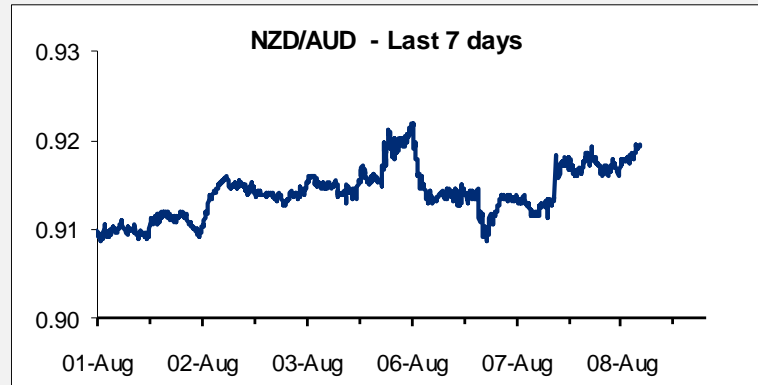
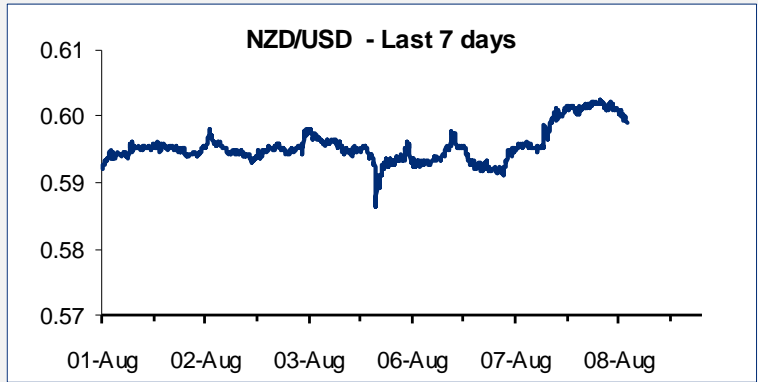
8/08/2024	7:00 am	Prev. NY close
USD	0.5990	0.5953
GBP	0.4722	0.4691
AUD	0.9193	0.9130
EUR	0.5485	0.5446
JPY	88.03	85.93
CAD	0.8234	0.8206
CHF	0.5164	0.5069
DKK	4.0934	4.0636
FJD	1.3494	1.3520
HKD	4.6712	4.6404
INR	50.29	49.98
NOK	6.4784	6.5000
PKR	166.70	165.61
PHP	34.47	34.43
PGK	2.3217	2.3065
SEK	6.2793	6.2676
SGD	0.7954	0.7890
CNY	4.2988	4.2598
THB	21.37	21.15
TOP	1.3917	1.4000
VUV	72.78	72.51
WST	1.6466	1.6381
XPF	65.78	65.34
ZAR	11.0250	10.9988

NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	0.04	0.35
3 Months	-1.33	-0.82
6 Months	-5.43	-4.11
9 Months	-9.49	-6.67
1 Year	-12.10	-9.07

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-7.84	-7.10
3 Months	-20.33	-19.11
6 Months	-31.22	-28.01
9 Months	-35.00	-28.54
1 Year	-33.01	-24.47



Contact Details

BNZ Research

Stephen Toplis

Head of Research
+64 4 474 6905

Doug Steel

Senior Economist
+64 4 474 6923

Jason Wong

Senior Markets Strategist
+64 4 924 7652

Stuart Ritson

Senior Interest Rate Strategist
+64 9 9248601

Mike Jones

BNZ Chief Economist
+64 9-956 0795

Main Offices

Wellington

Level 2, BNZ Place
1 Whitmore Street
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

Auckland

80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

Christchurch

111 Cashel Street
Christchurch 8011
New Zealand
Toll Free: 0800 854 854

This document has been produced by Bank of New Zealand (BNZ). BNZ is a registered bank in New Zealand and is only authorised to offer products and services to customers in New Zealand.

Analyst Disclaimer: The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed.

BNZ maintains an effective information barrier between the research analysts and its private side operations. Private side functions are physically segregated from the research analysts and have no control over their remuneration or budget. The research functions do not report directly or indirectly to any private side function. The Research analyst might have received help from the issuer subject in the research report.

New Zealand: The information in this publication is provided for general information purposes only, and is a summary based on selective information which may not be complete for your purposes. This publication does not constitute any advice or recommendation with respect to any matter discussed in it, and its contents should not be relied on or used as a basis for entering into any products described in it. Bank of New Zealand recommends recipients seek independent advice prior to acting in relation to any of the matters discussed in this publication.

Any statements as to past performance do not represent future performance, and no statements as to future matters are guaranteed to be accurate or reliable.

Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever which may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

USA: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.