

Research Markets Today

10 July 2024

Events Round-Up

AU: Westpac consumer confidence, Jul: 82.7 vs. 83.6 prev.

AU: NAB business conditions, Jun: 4 vs. 6 prev.

US: NFIB small business optimism, Jun: 91.5 vs. 90.2 prev.

Good Morning

Markets remain in a holding pattern ahead of key US CPI data later this week and Fed Chair Powell's testimony to lawmakers, where he largely repeated previous messages, didn't move the needle. US equities, Treasuries and currency markets show only small net movements. There has been more action in Europe, with the Euro Stoxx 600 index down 0.9%, led by France, and French-German bond spreads widened. The domestic focus today will be on the RBNZ's Monetary Policy Review where the market looks positioned for a more dovish message than provided in May.

Overnight, Fed Chair Powell's testimony to Senate lawmakers closely followed the message of the last FOMC meeting, with added context on recent data. On that note he said recent readings on inflation point to "modest further progress" and recent data send "a pretty clear signal that labour market conditions have cooled considerably", adding that the labour market was "strong, but not overheated". He noted "more good data would strengthen our confidence that inflation is moving sustainably toward 2%", adding "elevated inflation is not the only risk we face...reducing policy restraint too late or too little could unduly weaken economic activity and employment.

Overall, Powell wasn't prepared to give clear guidance on the timing of possible rate cuts and market reaction was muted, with a July rate cut still seen as highly unlikely, and a September cut seen at about a 75% chance. Ahead of that meeting there are still three CPI prints, including one later this week, and two key employment reports. The economic calendar has been light, but the NFIB survey of small businesses showed a third consecutive lift in business optimism to 91.5, off a low base.

Ahead of Thursday night's CPI print, US Treasury yields remained in a tight range, with little net movement in the 2-year rate on the day and the 10-year rate up 2bps to 4.30%. Germany's 10-year rate is up 4bps and the French-German 10-year spread widened 4bps to 66bps, more than

offsetting the modest narrowing in the previous session in the post-election aftermath. Moody's Investor Services said that France's sovereign credit rating outlook may be lowered to negative from stable if it observes a larger deterioration in the affordability of debt-servicing costs compared to peers, a similar warning it provided three months ago.

France's CAC-40 equity market index fell 1.6% as talks to form a government continued, and other key European markets were also notably weak, seeing the Euro Stoxx 600 index down 0.9%. By contrast, US equities recorded a fresh record high and the S&P500 is currently up slightly, led by Financials, ahead of the earnings season that kicks off later this week led by banking stocks.

Currency moves have been well-contained with only small net movements against the USD. Ahead of the RBNZ's MPR today, the NZD has traded a tight range, with the fall overnight limited to just over 0.6110 and strength limited to just over 0.6130. NZD/AUD has traded overnight between 0.9075-0.9095. Of the majors, the yen has been on the soft side of the ledger, with USD/JPY at 161.30 and NZD/JPY hovering near a multi-decade high just under 99.

Yesterday, domestic rates were lower across the curve, with NZGB yields down 2-4bps across the curve, with a flattening bias, and swap rates down 3-5bps, reflecting global forces and some last-minute positioning ahead of the RBNZ's MPR today. With the 2-year swap rate at 4.81%, its lowest level in three months and well below BKBM of 5.60%, it's fair to say that the market isn't positioned for a hawkish update. And, while no rate change is expected today, some 8bps of easing is pricing into the August meeting. Fair to say that some in the market will be expecting to hear more dovish commentary from the Bank.

There will be keen interest in how much the Bank acknowledges the poor state of the economy – as per the last reading of PMI and PSI indicators and the QSBO – and whether this leads the Bank to back away from its threat in May to raise interest rates further. We still find it remarkable that the MPC actually discussed the possibility of increasing the OCR back in May! But the Statement and minutes are unlikely to read as dovish as the market wants them to read, with the overall message likely to remain one of monetary constraint being required to drive inflation back down to target.

Also of interest will be China inflation data, while Fed Chair Powell faces another session in front of lawmakers tonight.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Net migration	May	7380	10:45	
CH	PPI (y/y%)	Jun	-0.8	-1.4	13:30
CH	CPI (y/y%)	Jun	0.4	0.3	13:30
NZ	RBNZ official cash rate	Jun	5.5	5.5	14:00
US	Fed's Powell testifies to House				02:00

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	0.6125	-0.0	0.6112	0.6132	CHF	0.8978	+0.0	S&P 500	5,580	+0.1	26.8	Oil (Brent)	84.85	-1.1
AUD	0.6740	+0.0	0.6724	0.6748	SEK	10.549	-0.3	Dow	39,291	-0.1	16.5	Oil (WTI)	81.63	-0.9
EUR	1.0813	-0.1	1.0806	1.0830	NOK	10.607	+0.0	Nasdaq	18,417	+0.1	34.8	Gold	2371.4	+0.3
GBP	1.2788	-0.1	1.2778	1.2825	HKD	7.812	+0.0	Stoxx 50	4,904	-1.3	15.7	HRC steel	670.0	-0.4
JPY	161.31	+0.3	160.74	161.52	CNY	7.273	+0.1	FTSE	8,140	-0.7	12.2	CRB	290.9	-0.9
CAD	1.3632	-0.0			SGD	1.351	+0.0	DAX	18,236	-1.3	16.9	Wheat Chic.	571.8	+0.2
NZD/AUD	0.9088	-0.1			IDR	16,251	-0.0	CAC 40	7,509	-1.6	5.6	Sugar	19.62	-2.5
NZD/EUR	0.5664	+0.1			THB	36.46	+0.1	Nikkei	41,580	+2.0	29.2	Cotton	66.96	+0.0
NZD/GBP	0.4790	+0.1			KRW	1,384	+0.0	Shanghai	2,959	+1.3	-7.6	Coffee	250.0	+6.6
NZD/JPY	98.80	+0.3			TWD	32.55	+0.2	ASX 200	7,830	+0.9	11.8	WM powder	3065	-0.3
NZD/CAD	0.8350	-0.0			PHP	58.44	-0.1	NZX 50	11,848	+0.9	-0.5	Australian Futures		
NZ TWI	72.20	+0.0						VIX Index	12.52	+1.2	-15.6	3 year bond	95.92	0.01
												10 year bond	95.63	-0.03
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						Last	Chg	
USD	5.50	5.57	4.47	3.88	USD	4.30	0.02	15-May-26	4.75	-0.02	BKBM 1-mth	5.60	0.00	
AUD	4.35	4.46	4.33	4.52	AUD	4.34	-0.01	15-Apr-27	4.56	-0.03	BKBM 3-mth	5.60	0.00	
NZD	5.50	5.60	4.81	4.41	NZD	4.62	-0.04	15-May-28	4.47	-0.03	1 year	5.27	-0.01	
EUR	3.75	3.70	3.20	2.82	GER	2.58	0.04	20-Apr-29	4.44	-0.03	2 year	4.81	-0.03	
GBP	5.25	5.30	4.46	3.85	GBP	4.16	0.05	15-May-30	4.48	-0.03	3 year	4.54	-0.04	
JPY	0.08	-0.03	0.42	1.07	JPY	1.09	-0.00	15-May-31	4.51	-0.03	5 year	4.34	-0.05	
CAD	4.75	4.97	4.27	3.76	CAD	3.49	0.02	15-May-32	4.57	-0.03	7 year	4.34	-0.05	
								14-Apr-33	4.60	-0.03	10 year	4.41	-0.04	
								15-May-34	4.62	-0.04	15 year	4.54	-0.04	
								15-May-35	4.67	-0.04				
								15-May-37	4.79	-0.04				
								15-May-41	4.93	-0.04				
								15-May-51	4.96	-0.04				
								15-May-54	4.98	-0.04				

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

NZD exchange rates

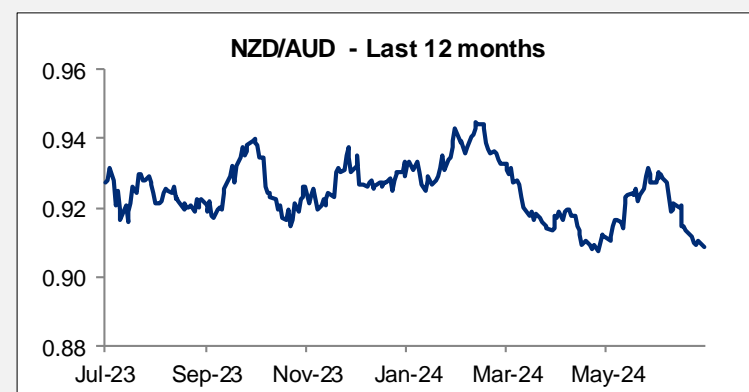
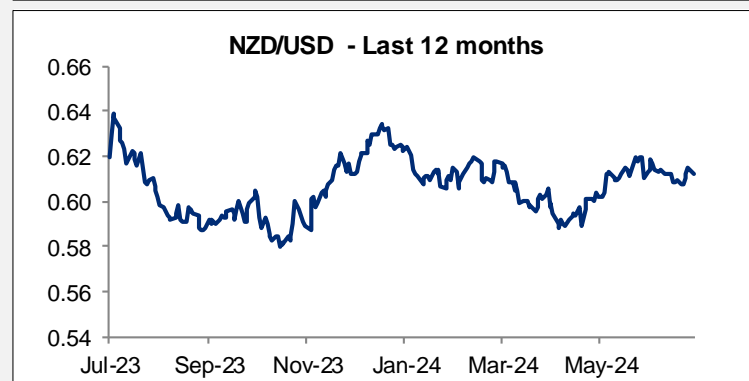
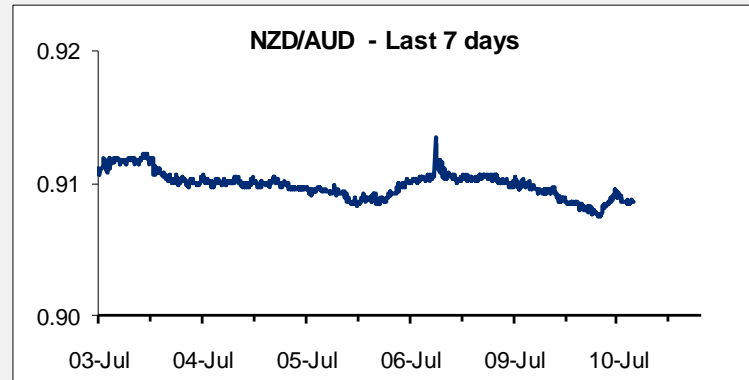
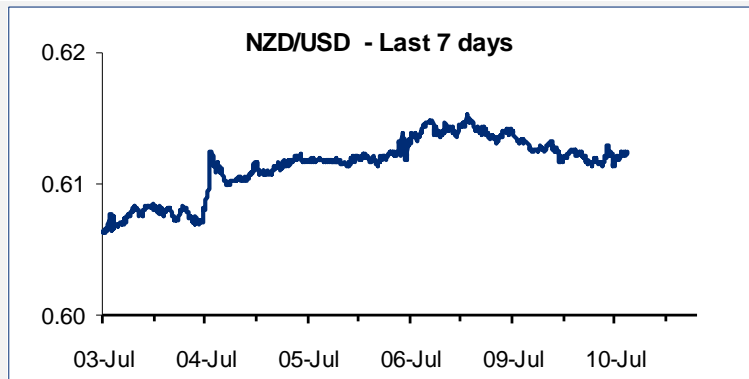
10/07/2024 6:54 am		Prev. NY close
USD	0.6125	0.6126
GBP	0.4790	0.4783
AUD	0.9088	0.9093
EUR	0.5664	0.5660
JPY	98.80	98.52
CAD	0.8350	0.8353
CHF	0.5499	0.5499
DKK	4.2254	4.2215
FJD	1.3727	1.3794
HKD	4.7847	4.7843
INR	51.14	51.15
NOK	6.4967	6.4977
PKR	170.58	170.61
PHP	35.79	35.85
PGK	2.3594	2.3589
SEK	6.4611	6.4833
SGD	0.8272	0.8270
CNY	4.4545	4.4524
THB	22.29	22.34
TOP	1.4165	1.4112
VUV	73.27	73.06
WST	1.6607	1.6604
XPF	67.88	67.86
ZAR	11.1125	11.0987

NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.25	0.06
3 Months	-0.57	-0.07
6 Months	-1.62	-0.62
9 Months	-4.20	-2.20
1 Year	-6.67	-3.67

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-8.46	-7.74
3 Months	-22.00	-20.80
6 Months	-37.67	-35.02
9 Months	-46.84	-41.99
1 Year	-51.66	-43.71



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