

Research Markets Today

11 July 2024

Events Round-Up

NZ: Net migration, May: 1410 vs. 5110 prev.

CH: PPI (y/y%), Jun: -0.8 vs. -0.8 exp.

CH: CPI (y/y%), Jun: 0.2 vs. 0.4 exp.

NZ: RBNZ official cash rate, Jun: 5.5 vs. 5.5 exp.

Good Morning

Global equity markets made solid gains with the S&P gaining more than 0.5% to trade above 5,600 to yet another record high. European stocks rebounded from the previous session dip. Major regional indices closed higher, and the Euro Stoxx advanced more than 1%. There was no economic data of note overnight. US treasuries are marginally lower in yield and currency markets were subdued for the most part as investors look ahead to key US CPI data this evening.

There was little new information on the outlook for monetary policy to be gleaned from Fed Chair Powell's appearance before the House Financial Services Committee. The testimony was the same as he delivered the previous day to the Senate Banking Committee. He said the central bank had made 'considerable progress' on inflation but needed to see more 'good data' before lowering interest rates.

US treasuries reversed an earlier dip in yield and are little changed. The US\$39 billion ten-year note auction attracted reasonable demand and cleared a basis point through the pre-announcement level. There is further supply tomorrow morning (NZT) – US\$22 billion of 30-year bonds – which will take place following the release of the CPI data. European bonds closed lower in yield. 10-year bunds dipped 5bps to 2.53%.

Currency markets were generally confined to narrow ranges overnight. The NZD stabilised after the RBNZ's dovish pivot contributed to a sharp move lower in the local session yesterday. The euro and yen are little changed against the dollar. The pound outperformed within the G10 following comments from the Bank of England's chief economist who warned of continued persistence in inflationary pressures. NZD/GBP traded down towards 0.4730, the lowest level in 10-weeks. The Norwegian Krone dropped close to 1% against the US dollar following soft inflation data.

China's June inflation data revealed ongoing subdued price pressures resulting from weak domestic demand. CPI increased 0.2% in compared to a year ago, which was below expectations. PPI deflation moderated but prices still fell 0.8% on an annual basis, which is the 21st month of declines. The Peoples Bank of China set a higher USD/CNY fix yesterday suggesting limited resistance towards a weaker yuan.

The Bank of Japan (BoJ) has been holding meetings with JGB market participants to assess how quickly it can reduce its monthly bond purchases ahead of unveiling its plans at the end of the month. The BoJ plans to gradually normalise policy, after massive bond buying in the past decade, which has seen the Bank own more than 50% of the outstanding JGBs. The current monthly purchase pace is close to ¥6 trillion, and a larger cut, may help to ease the pressure on the yen. After a dip in June, 10-year JGBs are back towards multi-year highs near 1.10%.

The RBNZ the Official Cash Rate steady at 5.5% at the Monetary Policy Review yesterday. The statement, accompanying the expected 'on hold' decision, represented a significant moderation in the Bank's hawkish stance from the May Policy Statement. Unlike May, a rate hike wasn't discussed, and alongside weak activity it was noted that restrictive monetary policy has 'significantly reduced consumer price inflation'. As a result of the shift in tone, we have reverted to forecasting the RBNZ will cut rates in November.

The RBNZ statement contributed to a large rally across NZ fixed income in the local session yesterday. There is now ~60bps of cuts priced by November. 2-year swap rates closed 19bps lower, and only marginally above the January lows at 4.62%, while 10-year swaps dropped 8bps to 4.34%. The 2y/10y swap curve steepened to -28bps and is also back at January levels. Government bonds underperformed – 10-year asset swaps widened to 24bps, the top end of the multi-month trading range.

The weekly government bond tender takes place today. New Zealand Debt Management is offering NZ\$500 million of nominal NZGBs today split across Apr-29 (\$225m), May-34 (\$225m) and Apr-37 (\$50m). The tender will be closely monitored after tepid demand from investors previously. The May-2041 maturity not fully allocated and bid cover for the May-2031 line was 1.08. The recent bond cheapening on asset swap may support demand.

Australian 10-year bond futures are little changed overnight, suggesting limited directional bias for NZGB yields on the open.

NZ selected price indicators, released this morning, will help finalise estimates for Q2 CPI, due out next Wednesday. BNZ's current forecast for Q2 CPI is 0.6% q/q and 3.5% y/y.

US CPI is the key release later this evening. The median forecast looks for a 0.1% monthly increase in headline and 0.2% increase in core. A 0.2% core reading would help confirm the run of high readings through Q1 is not persisting and build confidence in the disinflation trajectory, a prerequisite for the Fed to begin an easing cycle. Initial jobless claims will also be of interest after the move higher in recent weeks although several idiosyncratic factors, including the July 4 holiday, could impact the number.

Coming Up

		Period	Cons.	Prev.	NZT
NZ	Food Prices (m/m%)	Jun	-0.2	0	10:45
UK	Monthly GDP (m/m%)	May	0.2	0	18:00
UK	Industrial Production (m/m%)	May	0.3	-0.9	18:00
US	CPI (m/m%)	Jun	0.1	0	00:30
US	CPI Ex Food and Energy (m/m%)	Jun	0.2	0.2	00:30
US	CPI (y/y%)	Jun	3.1	3.3	00:30
US	CPI Ex Food and Energy (y/y%)	Jun	3.4	3.4	00:30
US	Initial Jobless Claims	Jul 6	235	238	00:30

Source: Bloomberg, BNZ

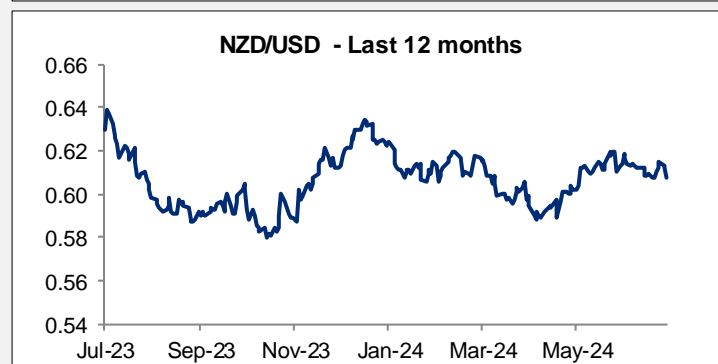
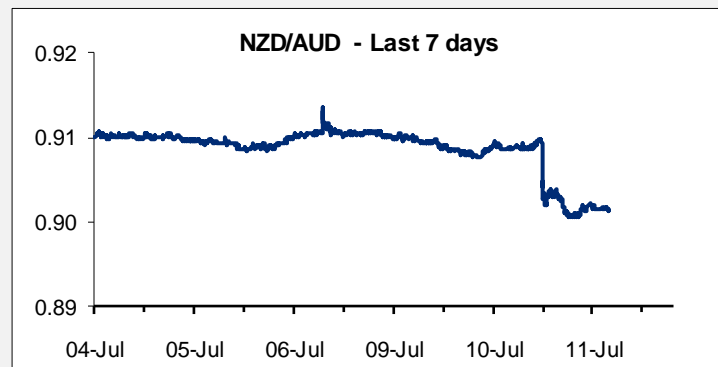
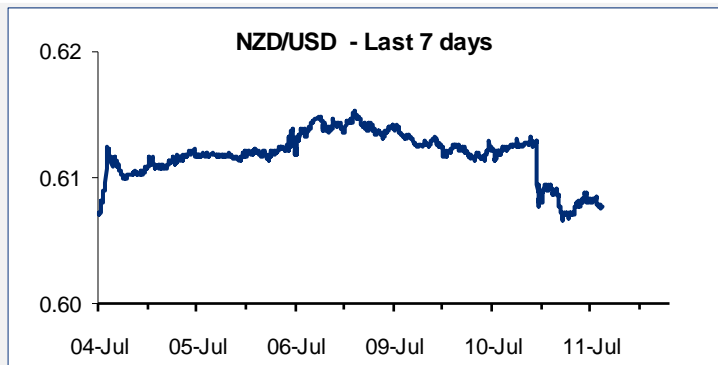
stuart.ritson@bnz.co.nz

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	0.6083	-0.8	0.6065	0.6094	CHF	0.8992	+0.2		S&P 500	5,611	+0.7	27.2	Oil (Brent)	85.13	+0.6
AUD	0.6746	+0.0	0.6733	0.6752	SEK	10.542	-0.1		Dow	39,506	+0.6	16.4	Oil (WTI)	82.05	+1.0
EUR	1.0827	+0.1	1.0812	1.0829	NOK	10.712	+1.3		Nasdaq	18,599	+1.0	35.9	Gold	2384.0	+0.4
GBP	1.2843	+0.5	1.2789	1.2847	HKD	7.811	-0.0		Stoxx 50	4,959	+1.1	16.5	HRC steel	669.0	-0.1
JPY	161.69	+0.3	161.34	161.81	CNY	7.276	+0.0		FTSE	8,194	+0.7	12.6	CRB	290.0	-0.3
CAD	1.3614	-0.1			SGD	1.349	-0.1		DAX	18,407	+0.9	17.4	Wheat Chic.	564.0	-2.0
NZD/AUD	0.9017	-0.8			IDR	16,241	-0.1		CAC 40	7,574	+0.9	6.0	Sugar	19.78	+0.8
NZD/EUR	0.5618	-0.9			THB	36.36	-0.2		Nikkei	41,832	+0.6	29.9	Cotton	70.20	+0.5
NZD/GBP	0.4736	-1.2			KRW	1,384	+0.0		Shanghai	2,939	-0.7	-8.8	Coffee	243.8	-1.8
NZD/JPY	98.36	-0.5			TWD	32.59	+0.1		ASX 200	7,817	-0.2	10.0	WM powder	3010	-1.8
NZD/CAD	0.8281	-0.9			PHP	58.34	-0.2		NZX 50	11,943	+0.8	0.3	Australian Futures		
NZ TWI	71.68	+0.0						VIX Index	12.53	+0.2	-16.9	3 year bond	95.95	0.03	
Interest Rates											10 year bond 95.65 0.03				
	Rates		Swap Yields		Benchmark 10 Yr Bonds		NZ Government Bonds		NZ BKBM and Swap Yields						
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day		Last	Chg	Last	Chg				
USD	5.50	5.57	4.45	3.86	USD	4.28	-0.02	15-May-26	4.75	0.00	BKBM 1-mth	5.60	0.00		
AUD	4.35	4.46	4.30	4.50	AUD	4.34	0.00	15-Apr-27	4.56	0.00	BKBM 3-mth	5.60	0.00		
NZD	5.50	5.60	4.62	4.34	NZD	4.62	0.00	15-May-28	4.47	0.00	1 year	5.07	0.00		
EUR	3.75	3.71	3.19	2.78	GER	2.53	-0.05	20-Apr-29	4.44	0.00	2 year	4.62	0.00		
GBP	5.25	5.30	4.45	3.83	GBP	4.13	-0.03	15-May-30	4.48	0.00	3 year	4.37	0.00		
JPY	0.08	-0.03	0.42	1.05	JPY	1.09	-0.01	15-May-31	4.51	0.00	5 year	4.22	0.00		
CAD	4.75	4.97	4.27	3.76	CAD	3.47	-0.02	15-May-32	4.57	0.00	7 year	4.24	0.00		
								14-Apr-33	4.60	0.00	10 year	4.34	0.00		
								15-May-34	4.62	0.00	15 year	4.46	0.00		
								15-May-35	4.67	0.00					
								15-May-37	4.79	0.00					
								15-May-41	4.93	0.00					
								15-May-51	4.96	0.00					
								15-May-54	4.98	0.00					

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

NZD exchange rates

11/07/2024 6:51 am		Prev. NY close
USD	0.6083	0.6125
GBP	0.4736	0.4790
AUD	0.9017	0.9086
EUR	0.5618	0.5664
JPY	98.36	98.81
CAD	0.8281	0.8352
CHF	0.5470	0.5499
DKK	4.1913	4.2253
FJD	1.3633	1.3789
HKD	4.7513	4.7848
INR	50.81	51.14
NOK	6.5162	6.4814
PKR	169.47	170.58
PHP	35.49	35.79
PGK	2.3441	2.3594
SEK	6.4129	6.4658
SGD	0.8205	0.8274
CNY	4.4259	4.4545
THB	22.14	22.29
TOP	1.4016	1.4188
VUV	72.94	73.33
WST	1.6459	1.6608
XPF	67.37	67.88
ZAR	11.0192	11.1142



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.27	0.08
3 Months	0.09	0.51
6 Months	1.54	2.54
9 Months	2.20	4.19
1 Year	3.43	6.43

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-8.12	-7.39
3 Months	-21.54	-20.44
6 Months	-32.92	-30.13
9 Months	-37.41	-33.14
1 Year	-37.35	-29.61

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 4, Spark Central
42-52 Willis 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

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