

Research Markets Today

12 August 2024

Events Round-Up

CH: PPI (y/y%), Jul: -0.8 vs. -0.9 exp.

CH: CPI (y/y%), Jul: 0.5 vs. 0.3 exp.

CA: Unemployment rate (%), Jul: 6.4 vs. 6.5 exp.

Good Morning

It was an uneventful end to the trading week on Friday, with US equity markets recovering further with a modest gain while the US Treasuries curve flattened, driven by a 5bps fall in the 10-year rate to 3.94%. Currency movements were modest, with the NZD and AUD falling into the weekly close, to around 0.60 and 0.6570 respectively.

It was an orderly close to a tumultuous week in financial markets. Risk appetite improved further, with the VIX index falling to 20.4, well down from last Monday's panic-high above 60, normally a level associated with a major crisis. Market chatter is that Monday's spike above 60 is misleading, given the calculation methodology. Calculations based on VIX futures showed that the level of panic in the market was nowhere near that threshold.

There was little newsflow on Friday to drive markets, and further semblance of normal trading activity was reflected in the S&P500 gaining 0.5%, leaving the index little changed for the week (down less than 0.1%), although the record will show a fourth consecutive weekly decline. The Euro Stoxx 600 gained 0.6%, taking the index up 0.3% for the week.

In the bond market, the US 10-year Treasury yield ended the day down 5bps to 3.94%, capping off a volatile week where it traded a 35bps range, and back to where it was just ahead of the non-farm payrolls report a week earlier that ignited market turmoil. The 2-year rate was slightly higher, resulting in the curve flattening.

Speaking in the weekend, Fed Governor Bowman, one of the most hawkish members of the FOMC, said she still saw upside risks to inflation, noting US fiscal policy, pressure on the housing market from immigration and geopolitical risks as factors. On policy she said, "I will remain cautious in my approach to considering adjustments to the current stance of policy".

In a Bloomberg survey of 51 economists, nearly 80% of respondents expect the Fed to cut by just 25bps in

September, with most of the rest predicting a larger rate cut. The consensus was for three consecutive 25bps cuts at the September, November and December meetings. Market pricing is more aggressive than that, with a better than even chance of a 50bps cut priced for September and 102bps of cuts priced through to the end of the year.

In economic news, Canada's labour market report was mixed, with employment unexpectedly falling by 3k in July, although driven by a fall in part-time employment, while a lower than expected participation rate meant that the unemployment rate was steady at 6.4%, one-tenth lower than expected. The data didn't change market expectations that the Bank of Canada would continue to cut rates by 25bps at sequential meetings through the rest of the year.

Currency markets were well contained on Friday. The NZD and AUD showed some modest underperformance, falling into the weekend close. The NZD finished the week around 0.60, still up 0.7% for the week overall, with commodity currencies actually outperforming for the week. The AUD closed the week around 0.6570 and NZD/AUD was little changed around 0.9125. The yen capped off a volatile week in a limp fashion, with USD/JPY down modestly to 146.60 and NZD/JPY drifting down to just below 88. NZD/GBP and NZD/EUR showed small declines to close the week around 0.47 and 0.55 respectively.

The domestic rates market finished the week on a calm note, with global forces seeing NZGB yields down 2-5bps. The 10-year rate closed the week at 4.26%, up 2bps for the week overall after a trading range of 21bps. The 2-year swap rate was down 4bps to 4.0% while the 10-year swap rate fell 1bp to 4.03%. Ahead of the RBNZ's MPS on Wednesday, the market closed the week pricing in 19bps of cuts for the meeting while Bloomberg's survey showed 9 economists picking a 25bps cut against 12 picking the RBNZ remaining on hold.

In the week ahead the domestic focus will be on the RBNZ meeting, while the global economy calendar is action-packed with the US CPI, PPI and retail sales releases all potentially market-moving. Elsewhere, Australian wages and employment data, China monthly activity indicators, UK CPI and labour market data and Japan GDP data are released. The week begins, however, on a quiet note.

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Coming Up

	Period	Cons.	Prev.	NZT
AU	Speech by Andrew Hauser, Deputy Governor			14:00
US	NY Fed 1yr inflation expectations	Jul	3.02	03:00

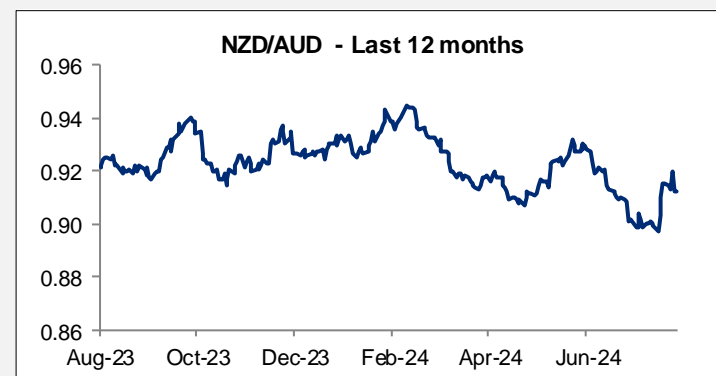
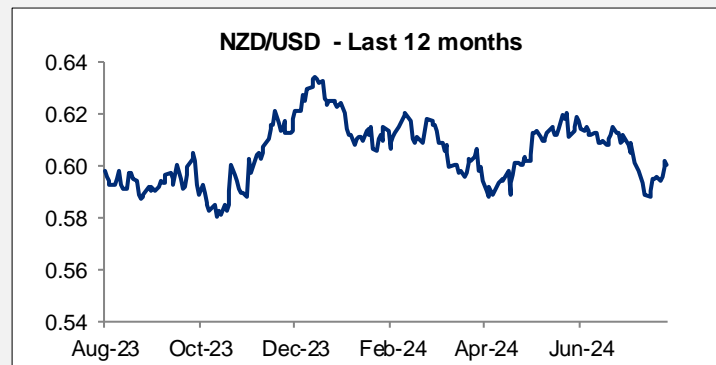
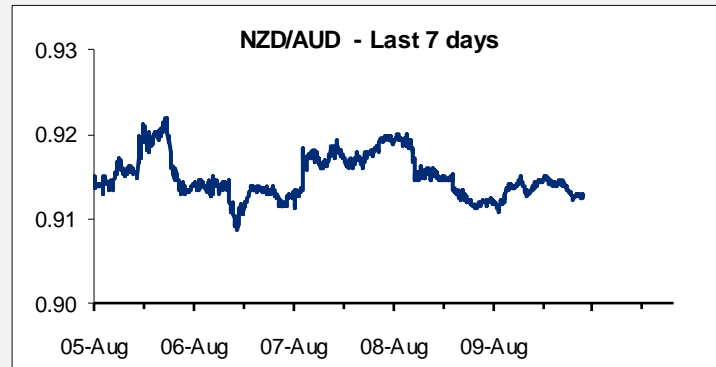
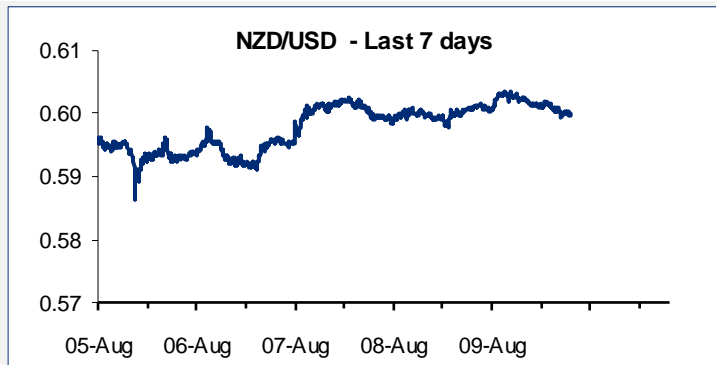
Source: Bloomberg, BNZ

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	Net Day			
NZD	0.5999	-0.2	0.5994	0.6031	CHF	0.8651	-0.2		S&P 500	5,344	+0.5	19.7	Oil (Brent)	79.66	+0.6
AUD	0.6572	-0.2	0.6567	0.6605	SEK	10.518	+0.0		Dow	39,498	+0.1	12.0	Oil (WTI)	76.84	+0.9
EUR	1.0916	-0.0	1.0909	1.0931	NOK	10.808	-0.3		Nasdaq	16,745	+0.5	22.7	Gold	2432.1	+0.4
GBP	1.2758	+0.1	1.2726	1.2774	HKD	7.798	+0.0		Stoxx 50	4,675	+0.1	8.2	HRC steel	680.0	+0.3
JPY	146.64	-0.4	146.27	147.32	CNY	7.168	-0.1		FTSE	8,168	+0.3	8.6	CRB	276.0	+0.7
CAD	1.3730	-0.0			SGD	1.324	-0.1		DAX	17,723	+0.2	11.9	Wheat Chic.	565.8	+0.8
NZD/AUD	0.9128	+0.0			IDR	15,925	+0.2		CAC 40	7,270	+0.3	-1.0	Sugar	18.48	-0.5
NZD/EUR	0.5496	-0.2			THB	35.24	-0.0		Nikkei	35,025	+0.6	7.9	Cotton	67.09	+2.0
NZD/GBP	0.4702	-0.3			KRW	1,365	-0.9		Shanghai	2,862	-0.3	-10.3	Coffee	230.3	-3.8
NZD/JPY	87.97	-0.6			TWD	32.40	-0.1		ASX 200	7,778	+1.2	6.0	WM powder	3200	-0.2
NZD/CAD	0.8236	-0.2			PHP	57.28	-0.1		NZX 50	12,243	-0.1	3.4	Australian Futures		
NZ TWI	70.08	-0.3						VIX Index	20.37	-14.4	+37.3	3 year bond	96.37	-0.01	
Interest Rates											10 year bond 95.96 0.08				
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	5.37	3.86	3.49	USD	3.94	-0.05	15-May-26	4.14	-0.05	BKBM 1-mth	5.44	-0.06		
AUD	4.35	4.38	3.82	4.15	AUD	4.06	-0.01	15-Apr-27	3.88	-0.04	BKBM 3-mth	5.35	-0.09		
NZD	5.50	5.35	4.00	4.03	NZD	4.26	-0.02	15-May-28	3.87	-0.03	1 year	4.59	-0.01		
EUR	3.75	3.56	2.72	2.51	GER	2.23	-0.04	20-Apr-29	3.90	-0.03	2 year	4.00	-0.04		
GBP	5.00	5.30	4.09	3.63	GBP	3.95	-0.03	15-May-30	3.96	-0.02	3 year	3.82	-0.03		
JPY	0.23	-0.03	0.41	0.84	JPY	0.85	0.00	15-May-31	4.07	-0.03	5 year	3.79	-0.04		
CAD	4.50	4.97	3.28	3.02	CAD	3.11	-0.06	15-May-32	4.16	-0.02	7 year	3.89	-0.03		
							NZ Inflation-Indexed Bonds		14-Apr-33	4.22	-0.03	10 year	4.03	-0.01	
							Sep-30	2.24	-0.00	15-May-34	4.26	-0.02	15 year	4.21	-0.01
							Sep-35	2.53	-0.00	15-May-35	4.33	-0.03			
							Sep-40	2.76	-0.00	15-May-37	4.45	-0.03			
									15-May-41	4.62	-0.03				
									15-May-51	4.67	-0.04				
									15-May-54	4.70	-0.04				

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

NZD exchange rates

10/08/2024	NY close	Prev. NY close
USD	0.5999	0.6014
GBP	0.4702	0.4718
AUD	0.9128	0.9122
EUR	0.5496	0.5508
JPY	87.97	88.54
CAD	0.8236	0.8259
CHF	0.5191	0.5212
DKK	4.1022	4.1101
FJD	1.3479	1.3619
HKD	4.6794	4.6878
INR	50.38	50.50
NOK	6.4859	6.5213
PKR	167.28	167.31
PHP	34.38	34.48
PGK	2.3224	2.3328
SEK	6.3116	6.3229
SGD	0.7945	0.7972
CNY	4.3017	4.3158
THB	21.18	21.27
TOP	1.4150	1.4015
VUV	72.63	72.98
WST	1.6479	1.6513
XPF	65.90	66.07
ZAR	11.0036	11.0423



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	0.45	0.75
3 Months	-0.19	0.69
6 Months	-1.77	-0.77
9 Months	-3.46	-0.92
1 Year	-2.97	0.03

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-7.34	-6.69
3 Months	-18.84	-17.08
6 Months	-27.75	-25.17
9 Months	-30.18	-24.27
1 Year	-27.31	-18.47

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