

# Research Markets Today

12 July 2024

## Events Round-Up

- NZ: Food prices (y/y%), Jun: -0.3 vs 0.2 prev.
- UK: Monthly GDP (m/m%), May: 0.4 vs. 0.2 exp.
- UK: Industrial production (m/m%), May: 0.2 vs. 0.3 exp.
- US: CPI (m/m%), Jun: -0.1. vs. 0.1 exp.
- US: CPI ex food, energy (m/m%), Jun: 0.1 vs. 0.2 exp.
- US: CPI (y/y%), Jun: 3.0 vs. 3.1 exp.
- US: CPI ex food, energy (y/y%), Jun: 3.3 vs. 3.4 exp.
- US: Initial jobless claims, wk to Jul 6: 222 vs. 235 exp.

## Good Morning

Another benign US CPI print drove a sharp rally in US Treasury yields, with rates down 9-12bps. USD weakness after the report wasn't fully sustained and most net currency movements have been modest, an exception being a plunge in USD/JPY with official intervention suspected. The NZD is trading close to 0.61. There has been a significant rotation in US equities, with most stocks higher but the S&P500 currently down 0.8%.

US CPI inflation for June undershot market expectations, with the headline CPI falling 0.1% m/m, taking the annual increase down to 3.0% y/y and the ex-food and energy measure rising just 0.1% m/m, taking the annual increase down to 3.3% y/y, its lowest rate in more than three years. It was the second benign inflation report in a row, adding to the case that the surprise blip up in the first quarter was an aberration against a backdrop of broad disinflationary pressure. Supporting the weaker inflation report, shelter prices rose just 0.2%, a three-year low – rents as measured in the CPI have been a lagging indicator, with timelier rent measures showing much lower inflation for some time, giving a sense that lower inflation prints can be sustained from here.

The weak inflation report cemented in market expectations that the Fed's easing cycle can begin in September, with a 25bps cut now fully priced, with the meeting at the end of this month still seen as a pass. The market was willing to overlook the fact that initial jobless claims, released at the same time as the CPI, fell 17k last week to 222k, much lower than expected. Claims at this time of the year, incorporating the 4 July holiday and annual auto shutdowns, can be erratic, with other labour market data showing easier pressures, including the

unemployment rate recently pushing up to a 3½ year high. The combo of lower inflation and a higher unemployment rate suggests a series of rate cuts can follow.

The data drove a rally in US Treasuries, led by the short end, seeing the 2-year rate down 12bps for the day to 4.50% and the 10-year rate down 9bps to 4.19%, near a key resistance level, a clear break of which would bring 4% into play.

With a Fed easing now firmly in sight, there was a significant rotation in US equities, with previous high-flyers getting whacked and investors switching into smaller cap stocks. The tech-heavy Nasdaq index is currently down 1.7%, against a 3.4% gain in the Russell 2000 index of smaller cap stocks. In between, the S&P500 is down 0.8%, but over 400 stocks in the index are actually higher and the equally weighted index is up well over 1%.

The USD weakened after the CPI report before grinding back higher, resulting in small net movements overall. An exception has been USD/JPY, with a sharp drop of 2½% to below 157.50 at its low and currently just below 159. There is strong suspicion that Japan's MoF ordered the BoJ to intervene in the market, taking advantage of USD weakness following the CPI report. As is usual practice, Japan's top currency official Kanda refused to comment on whether Japan had intervened. NZD/JPY has plunged to below 97.

The NZD rose to an overnight high just under 0.6135, before sliding back to just below 0.61. The AUD rose to 0.6799, its highest level since early January, before falling back to 0.6760. NZD/AUD has found its feet after its post RBNZ MPR fall and trades around 0.9020.

GBP is on the strong side of the ledger, supported by data earlier in the session showing stronger than expected monthly GDP of 0.4% m/m in May, putting it on track for another solid quarterly print after the solid Q1 result. GBP has sustained a move above 1.29 after earlier peaking near 1.2950. NZD/GBP is probing two-month lows around 0.4725.

Yesterday, a feature of the domestic rates market was chaotic trading in money markets, with the short-end of the curve still feeling the effects of the shocking dovish pivot by the RBNZ on Wednesday. It looks like it'll take a few more days before the market settles as unwanted positions are cleared. The OIS market is pricing close to an

even chance of a 25bps cut in August, with 66bps of easing priced through to the November meeting. The 2-year swap rate fell 5bps to 4.57%, its lowest level since October 2022, and one major trading bank has already lowered short-term mortgage and deposit rates. The 10-year swap rate ended the day unchanged at 4.33%.

Following the poor government bond tender last week, investors were back in the market, with strong bid to cover ratios across all three lines in yesterday's tender. As with the swaps curve, the NZGB curve steepened, with short rates down 5bps and long-term rates down 1-2bps. The global rally overnight can see further downside pressure on yields on the open today, with Australia's 10-year bond future down 6bps in yield terms since the NZ close.

Stats NZ released the monthly pricing series, which cover 45% of the CPI. The index rose 0.1% m/m in June, capping off a very weak first six months of the year, where prices are actually down 0.1% over that time. It was another indicator highlighting the disinflationary pulse in NZ, although the caveat is that it excludes some high-flying non-tradeable items like local authority rates and insurance, which are running at a double-digit pace. The data were in line with our expectations, seeing no change to our Q2 CPI pick of 0.6% q/q (the same as the RBNZ's May MPS pick) and 3.5% y/y.

In the day ahead, domestic releases include the manufacturing PMI and card spending, both of which have been woeful over the past year, so it'll be interesting to see if new depths are probed. China trade data, and US PPI and the University of Michigan consumer survey round out the calendar. The PPI release will help firm up estimates of the core US PCE deflator, the key measure the Fed is looking to bring down to 2%.

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**Coming Up**

		Period	Cons.	Prev.	NZT
NZ	Manufacturing PMI	Jun	47.2	10:30	
NZ	Card spending total (m/m%)	Jun	-0.9	10:45	
CH	Exports (USD, y/y%)	Jun	8.0	7.6	
CH	Imports (USD, y/y%)	Jun	2.5	1.8	
US	PPI ex food, energy (m/m%)	Jun	0.2	0.0	00:30
US	PPI ex food, energy (y/y%)	Jun	2.5	2.3	00:30
US	U. of Mich. cons sentiment	Jul	68.5	68.2	02:00
US	U. of Mich. 5-10yr inflation exp.	Jul	3.0	3.0	02:00

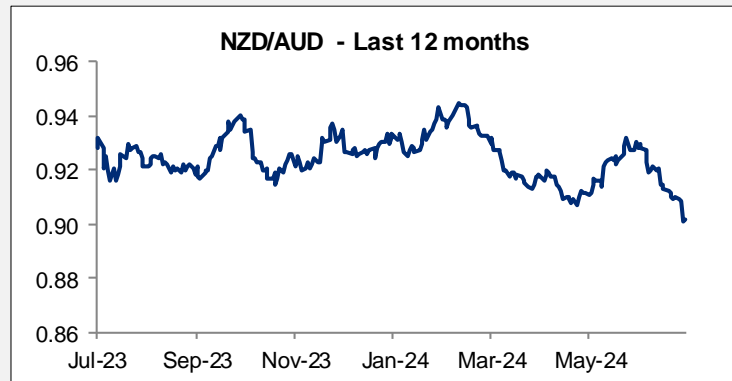
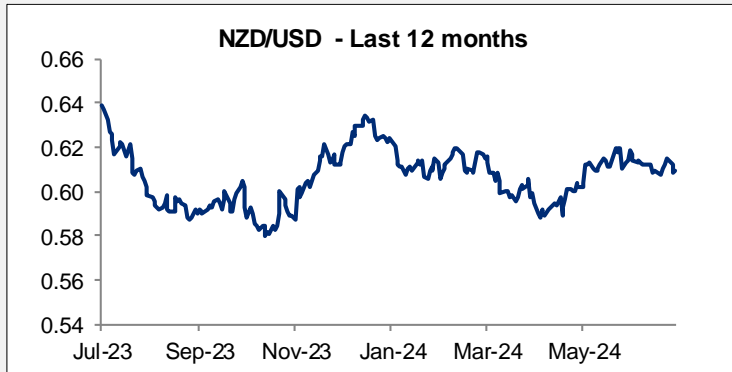
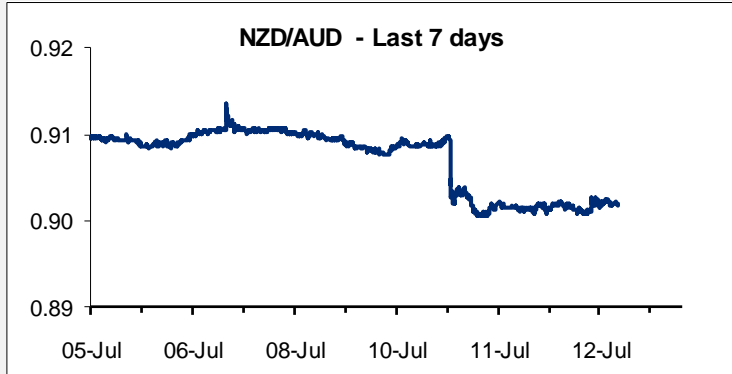
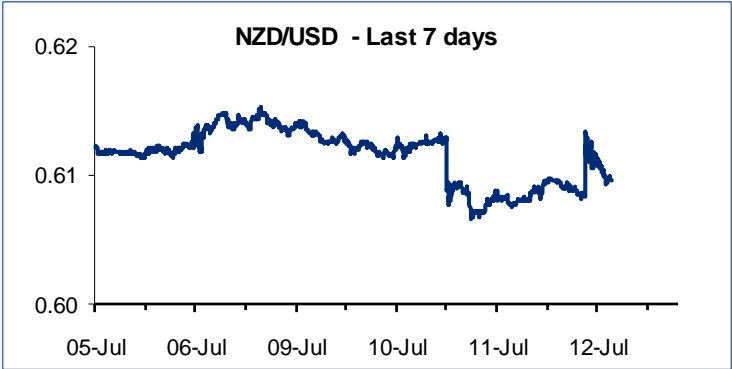
Source: Bloomberg, BNZ

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	0.6097	+0.3	0.6082	0.6134	CHF	0.8955	-0.4	5,589	-0.8	25.9	Oil (Brent)	85.65	+0.7
AUD	0.6760	+0.2	0.6751	0.6799	SEK	10.499	-0.4	39,748	+0.0	16.0	Oil (WTI)	82.91	+1.0
EUR	1.0868	+0.4	1.0833	1.0900	NOK	10.717	+0.1	18,336	-1.7	33.2	Gold	2422.0	+1.8
GBP	1.2912	+0.5	1.2857	1.2949	HKD	7.807	-0.1	4,976	+0.3	16.1	HRC steel	666.0	-0.4
JPY	158.75	-1.8	157.44	161.76	CNY	7.258	-0.3	8,223	+0.4	12.9	CRB	289.7	-0.1
CAD	1.3634	+0.1			SGD	1.343	-0.4	18,535	+0.7	17.4	Wheat Chic.	571.3	+1.7
NZD/AUD	0.9019	+0.1			IDR	16,195	-0.3	7,627	+0.7	5.6	Sugar	19.43	-1.9
NZD/EUR	0.5610	-0.1			THB	36.11	-0.7	42,224	+0.9	32.2	Cotton	69.06	-0.3
NZD/GBP	0.4722	-0.2			KRW	1,372	-0.8	2,970	+1.1	-7.1	Coffee	244.9	+0.5
NZD/JPY	96.79	-1.5			TWD	32.51	-0.2	7,890	+0.9	10.6	WM powder	3050	+1.3
NZD/CAD	0.8313	+0.4			PHP	58.30	-0.1	12,058	+1.0	1.3	<b>Australian Futures</b>		
NZ TWI	71.60	-0.1						13.13	+2.2	-11.5	3 year bond	95.92	-0.03
											10 year bond	95.68	0.04
Interest Rates							NZ Government Bonds				NZ BKBM and Swap Yields		
Rates		Swap Yields			Benchmark 10 Yr Bonds								
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day	Last	Chg		Last	Chg		
USD	5.50	5.57	4.32	3.76	USD	4.19	-0.09	15-May-26	4.58	-0.05	BKBM 1-mth	5.60	0.00
AUD	4.35	4.46	4.25	4.47	AUD	4.37	0.03	15-Apr-27	4.39	-0.05	BKBM 3-mth	5.55	-0.05
NZD	5.50	5.55	4.57	4.33	NZD	4.57	-0.02	15-May-28	4.32	-0.04	1 year	5.05	-0.02
EUR	3.75	3.70	3.10	2.73	GER	2.46	-0.07	20-Apr-29	4.31	-0.04	2 year	4.57	-0.05
GBP	5.25	5.30	4.38	3.78	GBP	4.07	-0.05	15-May-30	4.36	-0.03	3 year	4.33	-0.04
JPY	0.08	-0.03	0.40	1.03	JPY	1.09	0.01	15-May-31	4.41	-0.03	5 year	4.20	-0.02
CAD	4.75	4.97	4.27	3.76	CAD	3.42	-0.05	15-May-32	4.49	-0.03	7 year	4.23	-0.01
								14-Apr-33	4.53	-0.02	10 year	4.33	-0.00
								15-May-34	4.57	-0.02	15 year	4.46	0.00
								15-May-35	4.62	-0.01			
								15-May-37	4.74	-0.02			
								15-May-41	4.90	-0.02			
								15-May-51	4.94	-0.02			
								15-May-54	4.96	-0.02			

\* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer  
 Rates are as of: NZT 7:09am  
 Source: Bloomberg

**NZD exchange rates**

12/07/2024	7:10 am	Prev. NY close
USD	0.6097	0.6082
GBP	0.4722	0.4733
AUD	0.9019	0.9014
EUR	0.5610	0.5616
JPY	96.79	98.34
CAD	0.8313	0.8283
CHF	0.5460	0.5471
DKK	4.1875	4.1893
FJD	1.3762	1.3680
HKD	4.7609	4.7508
INR	50.96	50.80
NOK	6.5369	6.5143
PKR	169.83	169.38
PHP	35.56	35.48
PGK	2.3508	2.3437
SEK	6.4028	6.4130
SGD	0.8191	0.8204
CNY	4.4259	4.4253
THB	22.12	22.14
TOP	1.4067	1.4069
VUV	72.96	72.92
WST	1.6551	1.6508
XPF	67.42	67.35
ZAR	10.9645	11.0238



**NZD/USD Forward Points**

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.28	0.08
3 Months	-0.04	0.41
6 Months	0.22	1.22
9 Months	0.26	2.63
1 Year	-0.41	2.59

**NZD/AUD Forward points**

	BNZ buys NZD	BNZ Sells NZD
1 Month	-7.91	-7.10
3 Months	-20.39	-19.25
6 Months	-32.71	-29.91
9 Months	-36.76	-31.24
1 Year	-36.87	-27.89

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