

Research Markets Today

12 June 2024

Events Round-Up

AU: NAB business conditions, May: 6 vs. 7 prev.
UK: Wkly earnings x bonus (3m/y%), Apr: 6.0 vs. 6.1 exp.
UK: Unemployment rate (%), Apr: 4.4 vs. 4.3 exp.
US: NFIB small business optimism, May: 90.5 vs. 89.7 exp.

Good Morning

There has been continued fallout from French President Macron's decision to call early parliamentary elections, with a flight to quality within European assets. EUR underperformed again and NZD/EUR is at a four-month high. US rates have pushed lower ahead of the key US CPI report tonight, followed closely by the Fed's policy update. The NZD has outperformed, lifting to 0.6145.

The fallout from the weekend's European Parliament elections continued for a second day. French President Macron pushed back against chatter that he would resign if his party had a poor showing in the snap election he called, saying that his position as President won't be affected, but that didn't stop investors running for cover.

The Euro Stoxx 600 index fell 0.9% with French equities underperforming again, the CAC40 index down 1.3% following a similar fall on Monday. Across the region, banking stocks underperformed and there was spillover into peripheral markets. France's 10-year rate was steady against a 5bps fall in Germany's 10-year rate, seeing the spread widen to over 60bps, reaching 66bps at its peak, its highest level since 2020. The euro underperformed for a second day, albeit down only 0.2% on the day to 1.0740. NZD/EUR rose to a four-month high of 0.5715.

Elsewhere, the focus is on the key US CPI release tonight and the Fed's policy update. The core CPI is expected to rise 0.3% m/m. driving the annual figure down to a fresh three-year low of 3.5% y/y. As always, the focus will be on the detail, in particular the services side.

Just hours later, at 6am NZ time tomorrow morning, the Fed will be able to incorporate the data into its policy decision and projections. The market ascribes no chance for a rate cut at this meeting but will be seeking clues on the timing of the first rate cut. The dotplot projections are likely to show the median FOMC member expecting just one or two rate cuts this year (down from three previously

projected). Whether one or two rate cuts are projected is likely to depend on the CPI outcome, as FOMC members can change their projections at the last minute. A Bloomberg survey showed 41% of analysts expect the dotplot to show two projected cuts this year, and an equal number expect the projections to show just one or no cuts at all. Current market pricing sits at 39bps of Fed rate cuts this year, so close to 1½ rate cuts.

Both the projections and Chair Powell's press conference provide the opportunity to perturb the market, but we suspect the message will be familiar – the Fed will want to see more low inflation prints before kick starting the easing cycle.

Ahead of the CPI data and Fed meeting, and following the recent market sell-off, the 10-year US Treasury yield continued to push higher ahead of the 10-year bond auction overnight. The lift in yield drew out buyers, with strong demand leading to bonds clearing 2bps lower than the when-issued yield, and supporting further buying to drive yields down to their lows for the day. The 10-year rate is down 6bps on the day to 4.40%, with the 2-year rate down 5bps to 4.83%.

In economic news, the NFIB survey showed another small lift in small business optimism to 90.5, from a depressed level, remaining well below pre-COVID levels. Elsewhere, UK labour market data showed the unemployment rate rising to 4.4% in the three months to April, a 2½ year high, driven by weaker employment, while weekly earnings ex bonuses rose by a slightly lower than expected 6.0% y/y. The measure that the BoE prefers – earnings for the private sector – rose at a 5.8% annual pace, a two-year low. The data supported a modest fall in UK rates although the first full rate cut by the BoE still isn't priced until November, with 35bps of cuts priced by year-end.

In currency markets we've noted the weaker euro but also worth noting is the mild outperformance of the NZD, gaining 0.4% overnight to 0.6145 and higher on all the key crosses. The AUD is steady near 0.66 and NZD/AUD has pushed higher to just under 0.93. GBP was unperturbed by the labour market data and is steady, seeing a modest lift in NZD/GBP to 0.4820.

US equities are flat, with the S&P500 showing only a small lift. Apple shares rose over 6% to a record high, following its decision to partner with OpenAI to help integrate artificial intelligence into its software. Semi-conductor

stocks like Nvidia were weaker after Bloomberg reported that the US government was considering further restrictions on China’s access to chips used for AI.

In the domestic rates market yesterday, NZGB yields were little changed, with upside pressure from global forces offset by receiving interest in the swaps market, where rates fell 2-3bps across the curve. This saw the 2-year swap rate fall to 5.05% and the 10-year swap rate fall to 4.59%.

On the calendar, ahead of the key US reports noted earlier, Chinese inflation data and UK monthly GDP data are released.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Net migration	Apr	4910	10:45	
CH	PPI (y/y%)	May	-1.5	-2.5	13:30
CH	CPI (y/y%)	May	0.4	0.3	13:30
UK	GDP (m/m%)	Apr	0.0	0.4	18:00
UK	Industrial production (m/m%)	Apr	-0.1	0.2	18:00
US	CPI (m/m%)	May	0.1	0.3	00:30
US	CPI ex food, energy (m/m%)	May	0.3	0.3	00:30
US	CPI (y/y%)	May	3.4	3.4	00:30
US	CPI ex food, energy (y/y%)	May	3.5	3.6	00:30
US	Fed Funds rate (upper bound)	Jun	5.5	5.5	06:00

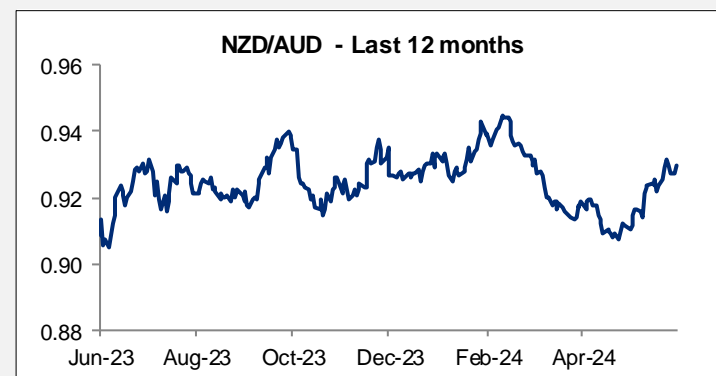
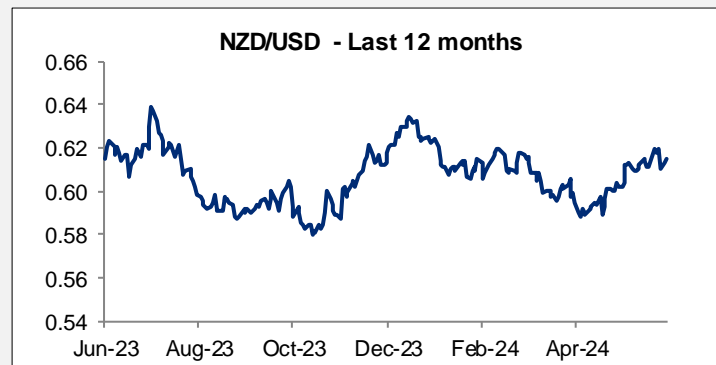
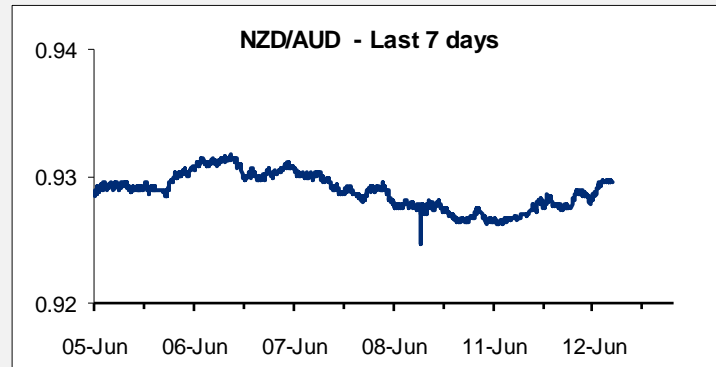
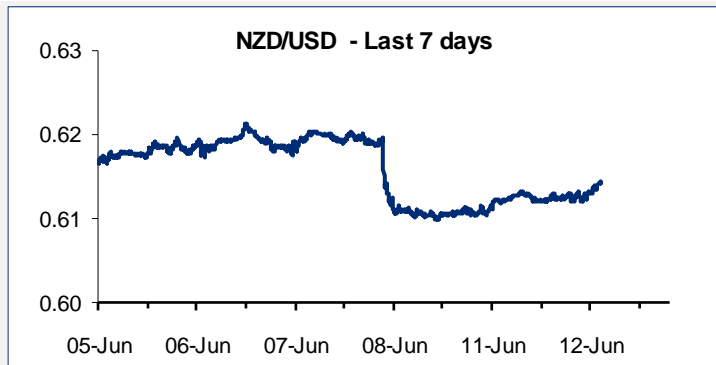
Source: Bloomberg, BNZ

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	0.6145	+0.3	0.6118	0.6146	CHF	0.8973	+0.1		S&P 500	5,371	+0.2	25.0		Oil (Brent)	81.95	+0.4
AUD	0.6610	+0.0	0.6589	0.6611	SEK	10.479	-0.0		Dow	38,717	-0.4	14.3		Oil (WTI)	77.96	+0.3
EUR	1.0743	-0.2	1.0720	1.0770	NOK	10.703	+0.6		Nasdaq	17,295	+0.6	30.4		Gold	2307.5	-0.0
GBP	1.2744	+0.1	1.2706	1.2750	HKD	7.813	+0.0		Stoxx 50	4,965	-1.0	15.7		HRC steel	728.0	+0.4
JPY	157.04	-0.0	156.81	157.40	CNY	7.254	+0.1		FTSE	8,148	-1.0	7.7		CRB	291.4	+0.5
CAD	1.3755	-0.0			SGD	1.353	+0.0		DAX	18,370	-0.7	15.2		Wheat Chic.	645.3	+2.3
NZD/AUD	0.9297	+0.3			IDR	16,291	+0.1		CAC 40	7,789	-1.3	8.0		Sugar	18.79	+0.9
NZD/EUR	0.5720	+0.5			THB	36.73	-0.1		Nikkei	39,135	+0.2	20.7		Cotton	72.73	+1.6
NZD/GBP	0.4822	+0.2			KRW	1,378	+0.1		Shanghai	3,028	-0.8	-6.2		Coffee	221.5	-0.2
NZD/JPY	96.50	+0.3			TWD	32.38	+0.4		ASX 200	7,755	-1.3	8.9		WM powder	3330	+0.2
NZD/CAD	0.8452	+0.2			PHP	58.70	-0.2		NZX 50	11,785	-0.0	1.5		Australian Futures		
NZ TWI	72.60	+0.3						VIX Index	12.84	+0.8	-7.2		3 year bond	96.02	-0.01	
Interest Rates																
	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	5.60	4.71	4.02	USD	4.40	-0.06	15-May-26	4.90	-0.02	BKBM 1-mth	5.60	0.00			
AUD	4.35	4.36	4.20	4.47	AUD	4.32	0.10	15-Apr-27	4.72	-0.01	BKBM 3-mth	5.62	0.00			
NZD	5.50	5.62	5.05	4.59	NZD	4.73	-0.00	15-May-28	4.64	-0.00	1 year	5.46	-0.02			
EUR	4.00	3.74	3.37	2.90	GER	2.62	-0.05	20-Apr-29	4.59	0.00	2 year	5.05	-0.03			
GBP	5.25	5.30	4.69	4.00	GBP	4.27	-0.05	15-May-30	4.59	0.00	3 year	4.78	-0.03			
JPY	0.08	-0.03	0.42	1.04	JPY	1.03	-0.02	15-May-31	4.63	0.00	5 year	4.56	-0.02			
CAD	4.75	4.98	4.29	3.76	CAD	3.47	-0.03	15-May-32	4.67	0.00	7 year	4.54	-0.02			
					NZ Inflation-Indexed Bonds			14-Apr-33	4.70	-0.00	10 year	4.59	-0.02			
					Sep-30	2.26	0.02	15-May-34	4.73	-0.00	15 year	4.72	-0.02			
					Sep-35	2.58	0.02	15-May-35	4.77	-0.00						
					Sep-40	2.77	0.02	15-May-37	4.87	-0.01						
								15-May-41	4.98	-0.01						
								15-May-51	4.98	-0.01						
								15-May-54	5.01	-0.01						

* These are indicative r 06:56
 please confirm rates with your BNZ dealer
 Rates are as of: NZT
 Source: Bloomberg

NZD exchange rates

12/06/2024	6:57 am	Prev. NY close
USD	0.6145	0.6128
GBP	0.4822	0.4813
AUD	0.9297	0.9271
EUR	0.5720	0.5693
JPY	96.50	96.23
CAD	0.8452	0.8432
CHF	0.5514	0.5494
DKK	4.2661	4.2459
FJD	1.3862	1.3858
HKD	4.8010	4.7877
INR	51.35	51.17
NOK	6.5767	6.5225
PKR	171.02	170.54
PHP	36.07	36.03
PGK	2.3580	2.3524
SEK	6.4391	6.4239
SGD	0.8313	0.8289
CNY	4.4578	4.4415
THB	22.58	22.56
TOP	1.4185	1.4225
VUV	74.08	73.86
WST	1.6716	1.6720
XPF	67.95	67.82
ZAR	11.4113	11.4727



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.11	0.09
3 Months	-0.52	-0.04
6 Months	-2.27	-1.09
9 Months	-4.81	-2.79
1 Year	-7.65	-4.65

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-8.85	-8.28
3 Months	-25.07	-23.92
6 Months	-47.75	-44.74
9 Months	-66.91	-61.78
1 Year	-82.04	-74.39

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