

Research Markets Today

14 August 2024

Events Round-Up

NZ: Net migration, Jun: 2710 vs. 3430 prev.
 AU: Westpac consumer confid., Aug: 85.0 vs. 82.7 prev.
 AU: Wage price index (y/y%), Q2: 4.1 vs. 4.0 exp.
 AU: Wage price index (q/q%), Q2: 0.8 vs. 0.9 exp.
 AU: NAB business conditions, Jul: 6 vs. 4 prev.
 UK: Unemployment rate (%), Jun: 4.2 vs. 4.5 exp.
 UK: Wkly earnings x bonus (3m/y%), Jun: 5.4 vs. 5.4 exp.
 US: NFIB small business optimism, Jul: 93.7 vs. 91.5 exp.
 US: PPI ex food and energy (m/m%), Jul: 0.0 vs. 0.2 exp.
 US: PPI ex food and energy (y/y%), Jul: 2.4 vs. 2.6 exp.

Good Morning

A benign US PPI print got the market's attention and helped drive lower US rates, a lower USD and higher US equities. Against broad-based weakness in the USD, the NZD has outperformed, steadily rising to 0.6075 and higher on the crosses. At yesterday's close, the market was pricing 17bps worth of cuts for today's RBNZ MPS. Significant rate cuts are likely to be projected by the RBNZ, as in May, the only lingering doubt being whether the Bank is willing to pull the trigger today.

The market's attention this week in terms of US economic releases was focused on the two inflation prints, the PPI and CPI. The release overnight of a benign PPI print ticked the right box to pave the way for the Fed to begin the easing cycle next month. Focus tonight will be on the CPI release to add to the case for a rate cut.

The PPI ex food and energy was flat in July, dragging the annual increase down to 2.4% y/y, two-tenths lower than the consensus. The items that feed into the Fed's preferred inflation measure, the personal consumption deflator, such as physician care costs, hospital outpatient care and airfares were flat to lower. Services prices posted their first monthly decline since March 2023, driven by a pullback in trade services which measures margins received by wholesalers and retailers.

The soft data triggered lower US rates, a lower USD and higher US equities. The market saw a slightly increased chance of a 50bps rather than a 25bps rate cut, with pricing for the September meeting nudging up to 40bps.

US Treasuries are down 3-7bps across the curve, led by the short end. The 10-year rate is down 4bps to 3.86%.

US equities bounced back strongly, with the S&P500 currently up 1½% and the Nasdaq index up over 2%. Stocks are up for four consecutive sessions, with the S&P500 now just over 4% below the all-time high of less than a month ago, the panic-stricken conditions of just over a week ago now a distant memory.

In other economic news, NFIB's small business optimism gauge rose to a 2½ year high of 93.7, although driven by one component measuring general business conditions, while most other components were flat to little changed.

UK labour market data showed an unexpected 0.2 fall in the unemployment rate to 4.2% in the June quarter, driven by strong employment. The usual health warning around the labour force survey applied. The wages data showed further signs of slowing, with average weekly earnings ex bonuses rising in line with the consensus at 5.4%, still too high for comfort, but well down from the 7-8% pace of a year ago. There was little sustained market reaction to the data, with November still seen to be the timing of the next BoE rate cut rather than September.

In currency markets, the USD shows broad-based weakness, driven by the PPI report. The NZD has outperformed again, helped by the higher risk appetite backdrop but also possibly reflecting a further paring of short positions ahead of the RBNZ's MPS today. It has been a steady upward climb for the NZD over the past 24 hours and it trades at a four-week high of 0.6075. The AUD is up through 0.6630 and NZD/AUD is higher at 0.9160, with yesterday's Australian wage data broadly in line with RBA and consensus estimates, providing no smoking gun for either an imminent rate cut or hike.

The NZD continues to recover on the other crosses, with NZD/JPY back up through 89, NZD/GBP near 0.4725 and NZD/EUR at 0.5525.

Oil prices broke a streak of five consecutive daily gains, driven by increased tension in the Middle East, with Brent crude down 2% to be back below USD81 per barrel. The IEA's monthly report suggested global inventory declines should abate in Q4, adding to the chance of a glut if OPEC+ proceeds with its plan to boost supplies.

The domestic rates market showed small movements with some mild curve flattening ahead of the RBNZ's MPS today. The 2-year swap rate closed 2bps higher at 4.03% while the 10-year rate fell 2bps to 3.99%, with similar moves for NZGBs.

For the MPS this afternoon, most believe that a significant monetary policy easing cycle is imminent – in the order of 200-250bps – but the uncertainty simply lies in timing. With the OIS market pricing in 17bps of rate cuts for the meeting, there will be a reaction in short-term yields whether the Bank cuts or not, but expectations for an aggressive rate cut cycle are unlikely to change – even the Bank's hawkish May projection showed 250bps of easing, albeit not beginning until the second half of next year. With GDP contracting for six of the past eight quarters and inflation back into the target range, if we include estimates through to the current quarter, there is no time like the present to begin the well-overdue easing cycle.

The US CPI release will be the global focus, with a market reaction likely if there is any deviation from the expected 0.2% m/m core rate, although the benign PPI print means that the market is more readied for a soft CPI print. For the UK CPI release, focus will be on services sector inflation,

still expected to be running around 5.5% y/y. Euro area Q2 GDP is also released, with preliminary figures pointing to a 0.3% q/q increase.

jason.k.wong@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
NZ	RBNZ official cash rate (%)	Aug	5.5	5.5	14:00
UK	CPI (y/y%)	Jul	2.3	2.0	18:00
UK	CPI core (y/y%)	Jul	3.4	3.5	18:00
UK	CPI services (y/y%)	Jul	5.5	5.7	18:00
EC	GDP (q/q%)	Q2	0.3	0.3	21:00
EC	Industrial production (m/m%)	Jun	0.5	-0.6	21:00
US	CPI (m/m%)	Jul	0.2	-0.1	00:30
US	CPI ex food and energy (m/m%)	Jul	0.2	0.1	00:30
US	CPI (y/y%)	Jul	3.0	3.0	00:30
US	CPI ex food and energy (y/y%)	Jul	3.2	3.3	00:30

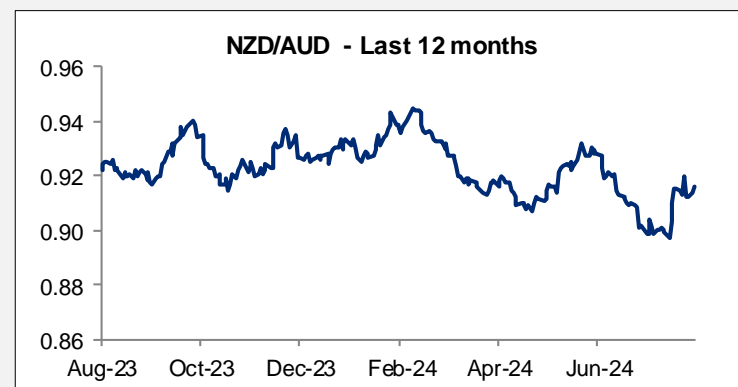
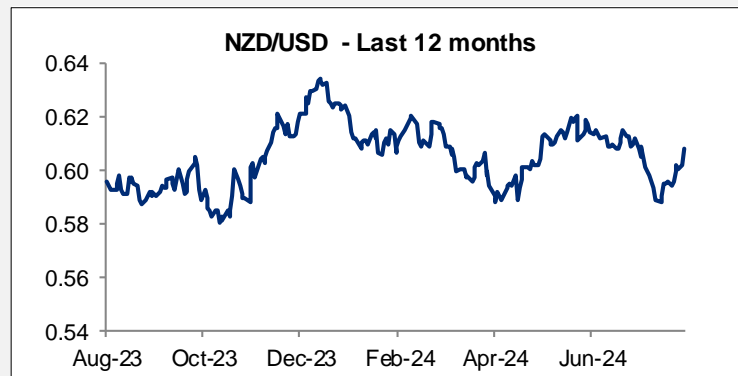
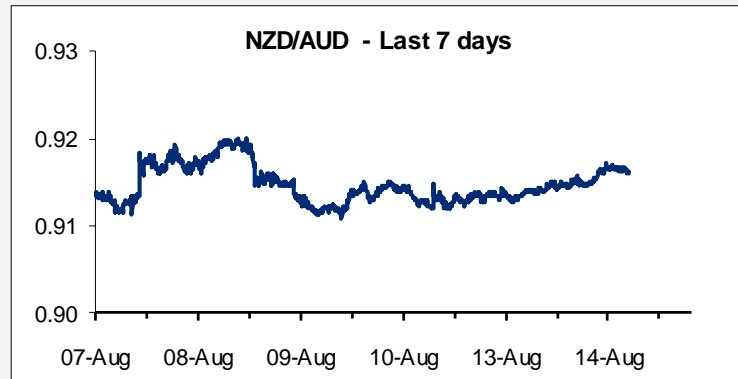
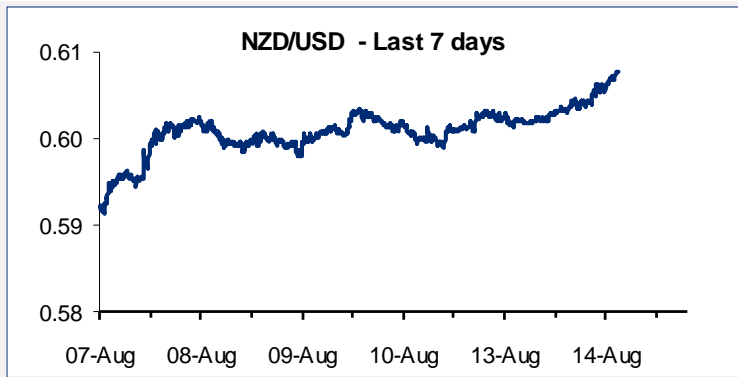
Source: Bloomberg, BNZ

Currencies						Equities				Commodities					
Global froces		Indicative overnight ranges (*)		Other FX		Major Indices				Price (Near futures, except CRB)					
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day				
NZD	0.6077	+1.0	0.6034	0.6078	CHF	0.8639	-0.2		S&P 500	5,427	+1.5	21.6	Oil (Brent)	80.73	-1.9
AUD	0.6634	+0.7	0.6591	0.6635	SEK	10.453	-0.7		Dow	39,724	+0.9	12.6	Oil (WTI)	78.40	-2.1
EUR	1.0999	+0.6	1.0914	1.0999	NOK	10.723	-0.8		Nasdaq	17,171	+2.3	25.8	Gold	2466.8	+0.2
GBP	1.2869	+0.8	1.2780	1.2873	HKD	7.789	-0.0		Stoxx 50	4,695	+0.5	8.6	HRC steel	678.0	+0.0
JPY	146.71	-0.3	146.65	147.94	CNY	7.155	-0.3		FTSE	8,235	+0.3	9.5	CRB	279.5	+1.3
CAD	1.3711	-0.2			SGD	1.317	-0.6		DAX	17,812	+0.5	12.5	Wheat Chic.	552.0	-1.4
NZD/AUD	0.9160	+0.3			IDR	15,833	-0.8		CAC 40	7,276	+0.3	-0.9	Sugar	18.39	+0.5
NZD/EUR	0.5525	+0.4			THB	34.99	-0.4		Nikkei	36,233	+3.4	13.0	Cotton	67.10	-1.4
NZD/GBP	0.4722	+0.2			KRW	1,366	-0.3		Shanghai	2,868	+0.3	-9.8	Coffee	229.1	-4.0
NZD/JPY	89.16	+0.6			TWD	32.45	-0.0		ASX 200	7,827	+0.2	7.6	WM powder	3230	+0.2
NZD/CAD	0.8332	+0.7			PHP	56.98	-0.6		NZX 50	12,319	+0.3	4.2	Australian Futures		
NZ TWI	70.64	+0.6						VIX Index	18.52	-10.6	+24.8	3 year bond	96.40	0.04	
												10 year bond	96.04	0.05	
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											
USD	5.50	5.38	3.74	3.41	USD	3.86	-0.05	15-May-26	4.17	0.02	BKBM 1-mth	5.46	0.02		
AUD	4.35	4.36	3.76	4.07	AUD	4.00	-0.04	15-Apr-27	3.91	0.01	BKBM 3-mth	5.38	0.01		
NZD	5.50	5.38	4.03	3.99	NZD	4.23	-0.02	15-May-28	3.88	0.00	1 year	4.63	0.03		
EUR	3.75	3.55	2.67	2.46	GER	2.19	-0.04	20-Apr-29	3.91	-0.00	2 year	4.03	0.02		
GBP	5.00	5.30	4.04	3.58	GBP	3.89	-0.03	15-May-30	3.96	-0.00	3 year	3.81	0.00		
JPY	0.23	-0.03	0.39	0.82	JPY	0.85	-0.01	15-May-31	4.05	-0.01	5 year	3.76	-0.02		
CAD	4.50	4.97	3.19	2.95	CAD	3.04	-0.04	15-May-32	4.14	-0.01	7 year	3.86	-0.02		
								14-Apr-33	4.19	-0.02	10 year	3.99	-0.02		
								15-May-34	4.23	-0.02	15 year	4.17	-0.02		
								15-May-35	4.30	-0.02					
								15-May-37	4.42	-0.02					
								15-May-41	4.59	-0.02					
								15-May-51	4.63	-0.03					
								15-May-54	4.66	-0.02					

* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer
 Rates are as of: NZT 06:56
 Source: Bloomberg

NZD exchange rates

14/08/2024 6:56 am		Prev. NY close
USD	0.6077	0.6019
GBP	0.4722	0.4713
AUD	0.9160	0.9139
EUR	0.5525	0.5506
JPY	89.16	88.61
CAD	0.8332	0.8273
CHF	0.5250	0.5208
DKK	4.1228	4.1091
FJD	1.3610	1.3593
HKD	4.7336	4.6895
INR	51.03	50.54
NOK	6.5166	6.5059
PKR	169.40	167.51
PHP	34.62	34.51
PGK	2.3609	2.3284
SEK	6.3521	6.3341
SGD	0.8003	0.7971
CNY	4.3479	4.3185
THB	21.37	21.24
TOP	1.4156	1.4083
VUV	73.08	72.69
WST	1.6658	1.6490
XPF	66.56	66.05
ZAR	11.0137	10.9760



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	0.55	0.95
3 Months	-0.07	0.43
6 Months	-3.04	-2.03
9 Months	-6.47	-4.47
1 Year	-9.41	-6.39

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-7.65	-6.79
3 Months	-18.93	-17.76
6 Months	-29.57	-27.08
9 Months	-33.94	-29.37
1 Year	-34.26	-26.13

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 2, BNZ Place
1 Whitmore 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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