

Research Markets Today

14 June 2024

Events Round-Up

NZ: Card spending total (m/m%), May: -0.9 vs. 0.9 prev.
 AU: Employment change (k), May: 40 vs. 30 exp.
 AU: Unemployment rate (%), May: 4.0 vs. 4.0 exp.
 EC: Industrial production (m/m%), Apr: -0.1 vs. 0.2 exp.
 US: Initial jobless claims (k), wk to 8 June: 242 vs. 225 exp.
 US: PPI final demand (m/m%), May: -0.2 vs. 0.1 exp.
 US: PPI ex food and energy (m/m%), May: 0.0 vs. 0.3 exp.
 US: PPI ex food and energy (y/y%), May: 2.3 vs. 2.5 exp.

Good Morning

Much softer than expected US PPI data and a further increase in jobless claims supported US Treasuries, taking yields down 7-8bps across the curve. Concerns around France remain the focus in Europe and with spillover impact for currency markets, with the NZD stuck near 0.6170 despite the weaker US data. NZD/EUR rises to its highest level since early January.

Hot on the heels of yesterday's soft US CPI print, PPI data were much weaker than expected, with the headline index falling 0.2% m/m and the ex-food and energy index flat, both measures three-tenths lower than consensus estimates. Combining the CPI and PPI data, analysts see the Fed's preferred core PCE deflator rising by just 0.1% m/m.

Initial jobless claims rose 13k last week to 242k, the highest level in nine months. While unaccounted for seasonal factors might have caused some of the unexpected rise, there are increasing signs that the trend is higher, consistent with the weakening in the labour market shown by other indicators.

The Fed's projection of just one rate cut this year assumed no further progress on bringing inflation down this year and the unemployment rate steady at 4.0%. Both of those assumptions look dubious and, given the Fed's message it would be data dependent, there is evidently a low hurdle rate for more cuts than projected. Thus, following the softer data the market's reaction was to increase the scope for easier policy this year, now building in two full rates by December and raising the chance of a September hike to over 75%.

US Treasury yields are lower across the curve, down in the order of 7-8bps, taking yields back to, or below, the levels prior to the FOMC update, which was interpreted as more hawkish than expected. Supporting the market further was solid demand at the auction of \$22b of 30-year bonds, with above average bid-cover and issued 1.5bps below the when-issued yield. The 10-year rate is currently down 8bps lower from the NZ close to 4.24% after trading at an overnight low of 4.22%, its lowest level since early April.

Elsewhere in global bond markets, French bonds continue to be whacked on fears that Marine Le Pen's party will bring in looser fiscal policy if it wins the upcoming election, at a time when there is already concern about the France's fiscal deficit and rising debt metrics, following S&P's ratings downgrade last month. France's 10-year rate is up 3bps against a 6bps fall in Germany's 10-year rate, taking the spread up to a seven-year high of 70bps.

Concerns about France continue to overhang European equity markets, with France's CAC40 down 2%, Germany's DAX down 2% and the Euro Stoxx 600 index down 1.3%, with falls led by the banking sector. In the US, the S&P500 is slightly higher, with the tech sector and bond-sensitive sectors leading the way and the more cyclical sectors underperforming.

In currency markets, concerns about France and spillover risks also appear evident, with a flight to safety. The euro is down 0.6% to 1.0740, dragging down other European currencies apart from the Swiss franc. A knee-jerk lift in the NZD to just under 0.62 after the weaker than expected US economic data proved temporary, with the currency making no progress overnight and flat around 0.6170. NZD/EUR is up to 0.5750, its highest level since early January.

The AUD is down slightly overnight to 0.6640, taking NZD/AUD back to around 0.93. Australia's labour market data were in line with market expectations, including the unemployment rate dipping back down to 4.0% and tracking in Q2 in line with the RBA's projection. NZD/JPY traded at a fresh 17-year high of 97.2 before the flight to safety saw it drop back below 97 and it currently trades at 96.8, with USD/JPY just under 157.

Global forces post the weak US CPI drove NZ rates down yesterday, with NZGB yields down 7-8bps across the curve, seeing the 10-year rate down to 4.66%. There was more evident flattening in the swaps curve, with the 2-year rate

down 4bps to 5.00% and the 10-year rate down 9bps to 4.50%. With inflation being the RBNZ's focus, the market continues to ignore poor economic activity data. NZ electronic card transaction fell 0.9% m/m in May, following the 0.9% m/m rise the previous month and thereby continuing their poor run. The data strongly supports our view that retail sales volumes will resume their decline in Q2, after a small bounce in Q1 that followed eight consecutive quarterly declines.

On the calendar today, there are a number of NZ data releases including REINZ housing market data, the manufacturing PMI and monthly pricing indicators that will help firm up Q2 CPI estimates. The BoJ's policy announcement will be released later this afternoon, where indications point to less bond buying ahead but another rate hike likely deferred until next month. The BoJ will be wanting to avoid another lurch down in the yen and to do this it'll have to offer a more hawkish policy perspective than delivered at the last meeting. Tonight sees the release of the University of Michigan survey, with focus on

consumer sentiment and inflation expectations, while ECB President Lagarde delivers a speech, coming after last week's policy update.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	REINZ house sales (y/y%)	May	25.3	09:00	
NZ	Manufacturing PMI	May	48.9	10:30	
NZ	Food prices (m/m%)	May	0.6	10:45	
JN	BOJ target rate (upper bound)	Jun	0.1	0.1	
US	U. of Mich. cons. sentiment	Jun	72	69.1	02:00
US	U. of Mich. 5-10y Inflation exp.	Jun	3.0	3.0	02:00
EC	ECB's Lagarde speaks				05:30

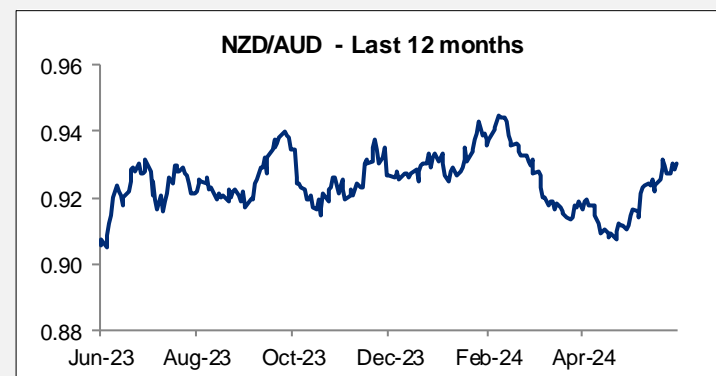
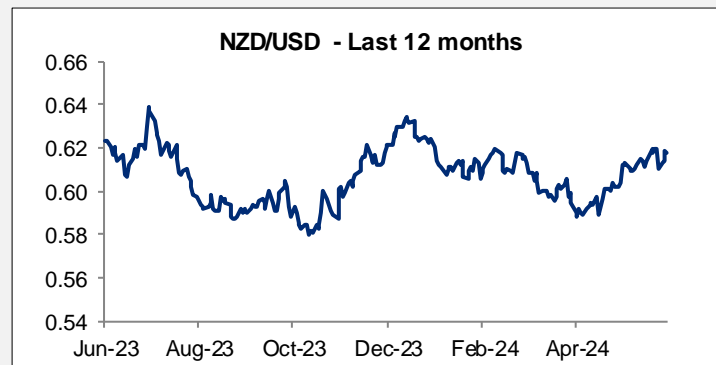
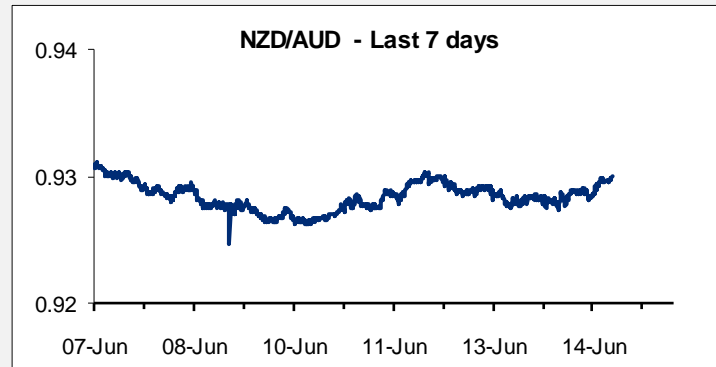
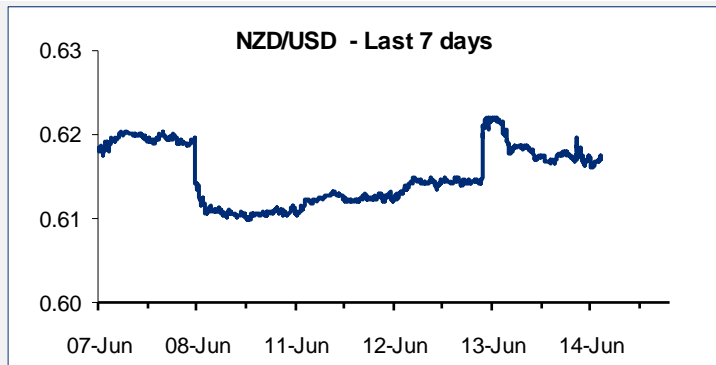
Source: Bloomberg, BNZ

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		Last	Net Day	
NZD	0.6173	-0.2	0.6160	0.6199	CHF	0.8938	-0.1		S&P 500	5,429	+0.2	24.3	Oil (Brent)	82.54	-0.1
AUD	0.6639	-0.4	0.6626	0.6675	SEK	10.469	+1.0		Dow	38,654	-0.2	13.0	Oil (WTI)	78.41	-0.1
EUR	1.0740	-0.6	1.0733	1.0816	NOK	10.646	+0.6		Nasdaq	17,670	+0.3	30.2	Gold	2300.2	-1.5
GBP	1.2764	-0.3	1.2739	1.2808	HKD	7.810	+0.0		Stoxx 50	4,936	-2.0	13.5	HRC steel	735.0	+0.3
JPY	156.86	+0.1	156.59	157.31	CNY	7.253	+0.2		FTSE	8,164	-0.6	7.5	CRB	295.1	+0.8
CAD	1.3741	+0.1			SGD	1.351	+0.3		DAX	18,266	-2.0	12.5	Wheat Chic.	636.3	+0.0
NZD/AUD	0.9298	+0.2			IDR	16,270	-0.2		CAC 40	7,708	-2.0	5.7	Sugar	19.59	+2.6
NZD/EUR	0.5748	+0.5			THB	36.76	+0.3		Nikkei	38,720	-0.4	15.6	Cotton	71.35	-0.4
NZD/GBP	0.4836	+0.1			KRW	1,374	-0.2		Shanghai	3,029	-0.3	-6.2	Coffee	226.3	+0.6
NZD/JPY	96.83	-0.1			TWD	32.34	-0.1		ASX 200	7,750	+0.4	8.2	WM powder	3270	+0.2
NZD/CAD	0.8482	-0.1			PHP	58.60	-0.0		NZX 50	11,873	+1.1	1.7	Australian Futures		
NZ TWI	72.86	-0.0						VIX Index	12.04	+0.0	-17.6	3 year bond	96.11	0.06	
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	5.61	4.53	3.85	USD	4.23	-0.08	15-May-26	4.83	-0.07	BKBM 1-mth	5.60	0.00		
AUD	4.35	4.37	4.12	4.33	AUD	4.19	-0.09	15-Apr-27	4.64	-0.08	BKBM 3-mth	5.62	0.00		
NZD	5.50	5.62	5.00	4.50	NZD	4.66	-0.08	15-May-28	4.55	-0.08	1 year	5.43	-0.02		
EUR	3.75	3.72	3.24	2.78	GER	2.47	-0.06	20-Apr-29	4.51	-0.08	2 year	5.00	-0.04		
GBP	5.25	5.30	4.55	3.85	GBP	4.12	-0.01	15-May-30	4.52	-0.08	3 year	4.71	-0.06		
JPY	0.08	-0.03	0.39	1.00	JPY	0.98	-0.01	15-May-31	4.55	-0.08	5 year	4.48	-0.08		
CAD	4.75	4.97	4.16	3.60	CAD	3.32	-0.07	15-May-32	4.61	-0.07	7 year	4.45	-0.08		
						NZ Inflation-Indexed Bonds		14-Apr-33	4.63	-0.07	10 year	4.50	-0.09		
						Sep-30	2.20	-0.06	15-May-34	4.66	-0.08	15 year	4.63	-0.09	
						Sep-35	2.51	-0.06	15-May-35	4.71	-0.07				
						Sep-40	2.71	-0.06	15-May-37	4.81	-0.07				
								15-May-41	4.94	-0.07					
								15-May-51	4.94	-0.07					
								15-May-54	4.96	-0.07					

* These are indicative r 06:58
 please confirm rates with your BNZ dealer
 Rates are as of: NZT
 Source: Bloomberg

NZD exchange rates

14/06/2024	6:58 am	Prev. NY close
USD	0.6173	0.6186
GBP	0.4836	0.4834
AUD	0.9298	0.9283
EUR	0.5748	0.5723
JPY	96.83	96.95
CAD	0.8482	0.8489
CHF	0.5517	0.5533
DKK	4.2882	4.2688
FJD	1.3863	1.3920
HKD	4.8212	4.8309
INR	51.57	51.68
NOK	6.5717	6.5443
PKR	171.80	172.16
PHP	36.17	36.31
PGK	2.3697	2.3756
SEK	6.4627	6.4140
SGD	0.8337	0.8334
CNY	4.4770	4.4790
THB	22.63	22.69
TOP	1.4240	1.4276
VUV	74.19	74.55
WST	1.6797	1.6817
XPF	68.29	68.21
ZAR	11.3933	11.3719



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.22	0.18
3 Months	-0.83	0.46
6 Months	-2.77	-1.76
9 Months	-6.50	-4.50
1 Year	-11.38	-8.38

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-8.49	-7.64
3 Months	-25.37	-23.00
6 Months	-47.64	-44.92
9 Months	-66.86	-61.91
1 Year	-82.78	-74.70

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