

# Research Markets Today

15 August 2024

## Events Round-Up

NZ: RBNZ official cash rate (%), Aug: 5.25 vs. 5.5 exp.  
 UK: CPI (y/y%), Jul: 2.2 vs. 2.3 exp.  
 UK: CPI core (y/y%), Jul: 3.3 vs. 3.4 exp.  
 UK: CPI services (y/y%), Jul: 5.2 vs. 5.5 exp.  
 EC: GDP (q/q%), Q2: 0.3 vs. 0.3 exp.  
 EC: Industrial production (m/m%), Jun: -0.1 vs. 0.5 exp.  
 US: CPI (m/m%), Jul: 0.2 vs. 0.2 exp.  
 US: CPI ex food and energy (m/m%), Jul: 0.2 vs. 0.2 exp.  
 US: CPI (y/y%), Jul: 2.9 vs. 3.0 exp.  
 US: CPI ex food and energy (y/y%), Jul: 3.2 vs. 3.2 exp.

## Good Morning

Global asset markets had a muted response to key US inflation data, after a brief spell of volatility, around the release. Equities closed higher in Europe, with the Euro Stoxx advancing 0.7%, but US markets are little changed in afternoon trade. Global currency and bond markets were similarly subdued.

US headline and core CPI increased 0.2% in July which was in line with consensus estimates. Core inflation increased 3.2% from a year ago, the slowest annual pace since early 2021. The super core measure (core services ex-housing) increased 0.2% after a 0.5% fall in June. The release of CPI and PPI data enables finetuning of PCE deflator forecasts, which suggest a benign 0.13% monthly increase in the core PCE deflator for July, when it is released at the end of the month.

Inflation is still broadly on a downward trend, and combined with the cooling labour market, will give US policy makers additional confidence to begin cutting rates at the September FOMC. The debate amongst investors is whether the Fed will cut by 25bps or 50bps. Current market pricing implies ~36bps of easing at the September meeting.

Despite some initial volatility around the CPI release, US treasuries are little changed. 2-year yields are up 3bps to 3.96% while the longer maturities outperformed flattening the yield curve. The 2y/10y curve, which briefly traded into positive territory in early August amid the extreme market volatility, has retraced to -13bps. 10-year treasury yields are 2bps lower at 3.83%.

After holding at the 2% Bank of England (BOE) target for two consecutive months, UK headline inflation rose to 2.2% in July, which was marginally below consensus estimates. The core reading increased 3.3%, also marginally below expectations. Services inflation, the BOE's key measure of domestic price pressures, fell to 5.2%, which was a larger decline than expected and was down from 5.7% in the previous month.

Sterling and gilt yields fell following the CPI release as the market firmed expectations for BOE easing. EUR/GBP is ~0.5% higher. There is close to a cumulative 50bps of easing priced for the three remaining policy meetings this year.

The RBNZ cut the Official Cash Rate by 25bps to 5.25% at the Monetary Policy Statement yesterday. Although the consensus expected rates to remain steady, a significant minority including the BNZ, forecast a 25bps cut. The statement noted headline inflation is returning to the Bank's target band and weak activity is contributing to spare capacity in the economy. The Bank's modelled OCR track implies the RBNZ will cut rates by 25bps at both of the remaining policy meetings this year and the easing cycle will take the policy rate sub 4% by end-2025.

NZD/USD traded to the highest level in four weeks ahead of the RBNZ before falling close to 1% after the release. The NZD couldn't recover in offshore trade, and has largely been trading sideways, amid generally quiet currency markets. The US dollar index dipped following the US CPI data but quickly recovered. The NZD was mixed on the major crosses outside of the USD making modest gains against the AUD, JPY and GBP, while losing ground against the euro.

NZ fixed income ended the local session yesterday lower in yield led by the front end of the curve. Although the initial market reaction to the RBNZ decision was fairly muted – there was around a 70% chance of a 25bps cut priced going into the meeting – the move lower in yields gained momentum after Governor Orr said a larger 50bps OCR cut had been considered as well. 2-year swap rates closed the session 13bps lower at 3.90% while 10-year swaps declined 7bps to 3.92%. 10-year government bonds largely matched the move in swaps closing 6bps lower at 4.17%.

The market looks ahead to the weekly bond tender today. New Zealand Debt Management is offering NZ\$500 million

of nominal NZGBs today split across Apr-27 (\$225m), May-34 (\$200m) and May-41 (\$75m). The Apr-27 line was last tendered in March.

Australian 10-year bond futures are ~5bps lower in yield since the local bond market close yesterday, suggesting a downward bias for NZGB yields on the open.

In the day ahead, NZ selected price indicators for July will provide some initial guidance for Q3 CPI. Monthly card spending is also released. It is a busy international economic calendar. Australian labour market data is expected to show a gradual cooling with the unemployment rate unchanged at 4.1%. Monthly activity data is released in China and the PBOC's MLF rate is expected to remain steady at 2.3%. Later this evening the main US data points are monthly retail sales and jobless claims.

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## Coming Up

		Period	Cons.	Prev.	NZT
NZ	Food Prices (m/m%)	Jul		1	10:45
NZ	Card Spending Total (m/m%)	Jul		-0.5	10:45
JN	GDP SA (q/q%)	2Q P	0.6	-0.5	11:50
CH	1-Yr MLF Rate	Aug	2.3	2.3	13:20
AU	Employment Change (k)	Jul	20	50.2	13:30
AU	Unemployment Rate	Jul	4.1	4.1	13:30
CH	Industrial Production (y/y%)	Jul	5.2	5.3	14:00
CH	Retail Sales (y/y%)	Jul	2.6	2	14:00
CH	Fixed Assets Ex Rural YTD (y/y%)	Jul	3.9	3.9	14:00
UK	GDP (q/q%)	2Q P	0.6	0.7	18:00
UK	Industrial Production (m/m%)	Jun	0.1	0.2	18:00
US	Empire Manufacturing	Aug	-6	-6.6	00:30
US	Retail Sales Advance (m/m%)	Jul	0.4	0	00:30
US	Retail Sales Ex Auto and Gas	Jul	0.2	0.8	00:30
US	Retail Sales Control Group	Jul	0.1	0.9	00:30
US	Phil. Fed Business Outlook	Aug	5	13.9	00:30
US	Initial Jobless Claims	Aug 10	235	233	00:30
US	Fed's Musalem Speaks on Economy, Policy				01:10
US	Industrial Production (m/m%)	Jul	-0.3	0.6	01:15
US	NAHB Housing Market Index	Aug	43	42	02:00
US	Fed's Harker Gives Speech				05:10

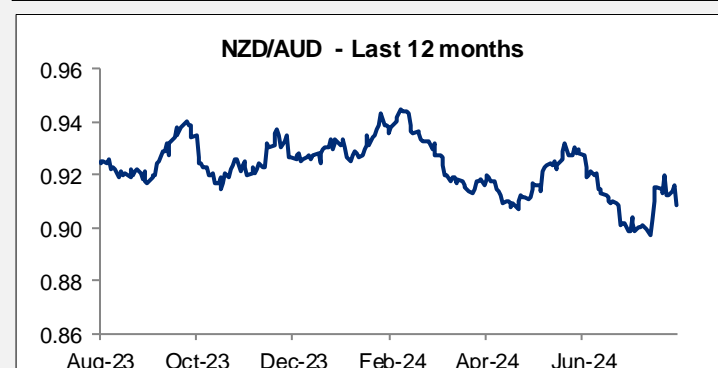
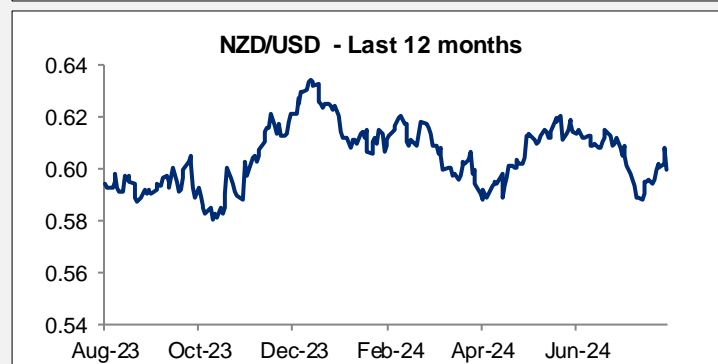
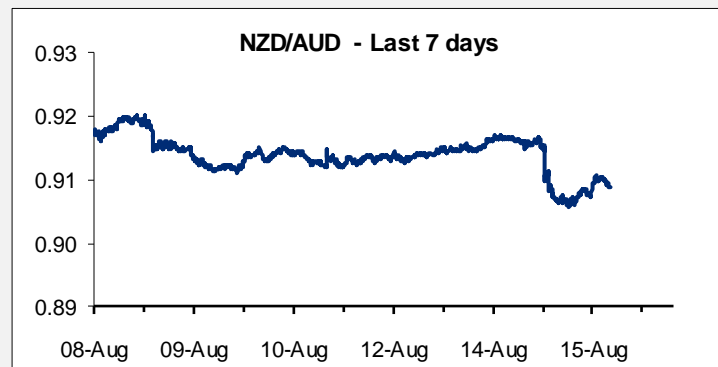
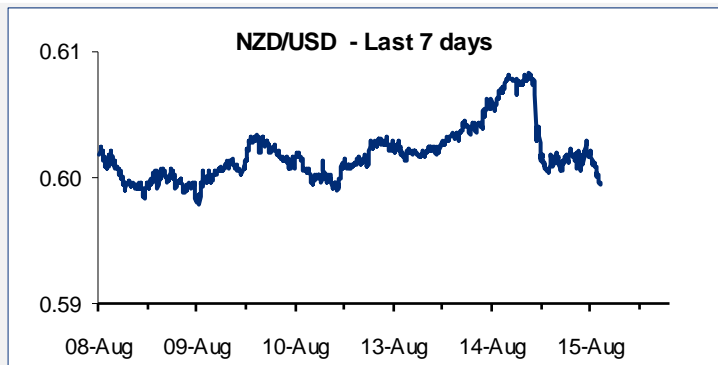
Source: Bloomberg, BNZ

Currencies							Equities				Commodities				
Global froces		Indicative overnight ranges (*)			Other FX		Major Indices				Price (Near futures, except CRB)				
	Last	% Day	Low	High		Last	% Day			Last	Net Day				
NZD	0.5996	-1.3	0.5995	0.6031	CHF	0.8654	+0.1	S&P 500	5,443	+0.2	21.2	Oil (Brent)	79.67	-1.2	
AUD	0.6598	-0.6	0.6596	0.6642	SEK	10.469	+0.0	Dow	39,990	+0.5	13.3	Oil (WTI)	76.88	-1.8	
EUR	1.1013	+0.2	1.0996	1.1047	NOK	10.726	-0.0	Nasdaq	17,161	-0.2	24.5	Gold	2439.4	-1.1	
GBP	1.2824	-0.3	1.2821	1.2864	HKD	7.793	+0.1	Stoxx 50	4,728	+0.7	9.2	HRC steel	660.0	-2.4	
JPY	147.24	+0.3	146.58	147.58	CNY	7.141	-0.2	FTSE	8,281	+0.6	10.3	CRB	276.3	-1.1	
CAD	1.3721	+0.1			SGD	1.317	-0.1	DAX	17,886	+0.4	12.5	Wheat Chic.	557.5	+1.0	
NZD/AUD	0.9088	-0.8			IDR	15,675	-1.0	CAC 40	7,333	+0.8	-0.2	Sugar	17.97	-2.3	
NZD/EUR	0.5444	-1.5			THB	35.08	+0.3	Nikkei	36,442	+0.6	13.0	Cotton	66.18	-1.5	
NZD/GBP	0.4676	-1.1			KRW	1,357	-0.7	Shanghai	2,851	-0.6	-10.2	Coffee	234.7	+2.6	
NZD/JPY	88.29	-1.1			TWD	32.29	-0.5	ASX 200	7,851	+0.3	7.5	WM powder	3290	+1.9	
NZD/CAD	0.8227	-1.2			PHP	56.96	-0.0	NZX 50	12,573	+2.1	6.4	<b>Australian Futures</b>			
NZ TWI	69.72	-1.3						VIX Index	16.66	-8.1	+12.4	3 year bond	96.50	0.10	
<b>Interest Rates</b>											10 year bond 96.11 0.06				
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	5.38	3.75	3.39	USD	3.83	-0.01	15-May-26	4.03	-0.14	BKBM 1-mth	5.44	-0.02		
AUD	4.35	4.36	3.68	4.02	AUD	3.93	-0.07	15-Apr-27	3.80	-0.11	BKBM 3-mth	5.37	-0.00		
NZD	5.25	5.37	3.90	3.92	NZD	4.17	-0.06	15-May-28	3.78	-0.09	1 year	4.49	-0.14		
EUR	3.75	3.54	2.67	2.45	GER	2.18	-0.01	20-Apr-29	3.82	-0.09	2 year	3.90	-0.13		
GBP	5.00	5.30	4.03	3.54	GBP	3.83	-0.06	15-May-30	3.89	-0.07	3 year	3.70	-0.11		
JPY	0.23	-0.03	0.39	0.80	JPY	0.82	-0.03	15-May-31	3.98	-0.07	5 year	3.68	-0.08		
CAD	4.50	4.97	3.18	2.91	CAD	3.01	-0.02	15-May-32	4.07	-0.06	7 year	3.78	-0.08		
							<b>NZ Inflation-Indexed Bonds</b>			14-Apr-33 4.13 -0.06			10 year 3.92 -0.07		
							Sep-30 2.12 -0.08			15-May-34 4.17 -0.06			15 year 4.10 -0.07		
							Sep-35 2.41 -0.08			15-May-35 4.25 -0.05					
							Sep-40 2.64 -0.08			15-May-37 4.37 -0.05					
										15-May-41 4.55 -0.04					
										15-May-51 4.60 -0.04					
										15-May-54 4.63 -0.03					

\* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer  
 Rates are as of: NZT 06:34  
 Source: Bloomberg

**NZD exchange rates**

15/08/2024 6:33 am		Prev. NY close
USD	0.5996	0.6076
GBP	0.4676	0.4724
AUD	0.9088	0.9159
EUR	0.5444	0.5527
JPY	88.29	89.22
CAD	0.8227	0.8328
CHF	0.5189	0.5255
DKK	4.0625	4.1243
FJD	1.3444	1.3719
HKD	4.6727	4.7324
INR	50.34	51.02
NOK	6.4314	6.5192
PKR	167.14	169.10
PHP	34.15	34.62
PGK	2.3258	2.3605
SEK	6.2772	6.3580
SGD	0.7894	0.8006
CNY	4.2816	4.3474
THB	20.95	21.36
TOP	1.3931	1.4290
VUV	71.86	73.15
WST	1.6315	1.6581
XPF	65.12	66.55
ZAR	10.8387	11.0229



**NZD/USD Forward Points**

	BNZ buys NZD	BNZ sells NZD
1 Month	0.96	1.24
3 Months	1.50	2.10
6 Months	0.76	1.77
9 Months	-0.25	1.75
1 Year	-0.33	2.69

**NZD/AUD Forward points**

	BNZ buys NZD	BNZ Sells NZD
1 Month	-6.87	-6.20
3 Months	-17.22	-15.90
6 Months	-25.58	-23.11
9 Months	-27.98	-23.21
1 Year	-26.16	-17.80

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