

Research Markets Today

16 August 2024

Events Round-Up

NZ: Food Prices (m/m%), Jul: 0.4 vs. 1.0 prev.
 NZ: Card Spending Total (m/m%), Jul: 0.7 vs. -0.5 prev.
 JN: GDP SA (q/q%), 2Q P: 0.8 vs. 0.6 exp.
 AU: Employment Change (k), Jul: 58 vs. 20 exp.
 AU: Unemployment Rate, Jul: 4.2 vs. 4.1 exp.
 CH: Industrial Production (y/y%), Jul: 5.1 vs. 5.2 exp.
 CH: Retail Sales (y/y%), Jul: 2.7 vs. 2.6 exp.
 CH: Fixed Assets Ex Rural YTD (y/y%), Jul: 3.6 vs. 3.9 exp.
 UK: GDP (q/q%), 2Q P: 0.6 vs. 0.6 exp.
 UK: Industrial Production (m/m%), Jun: 0.8 vs. 0.1 exp.
 US: Empire Manufacturing, Aug: -4.7 vs. -6 exp.
 US: Retail Sales Advance (m/m%), Jul: 1.0 vs. 0.4 exp.
 US: Retail Sales Ex Auto and Gas, Jul: 0.4 vs. 0.2 exp.
 US: Retail Sales Control Group, Jul: 0.3 vs. 0.1 exp.
 US: Phil. Fed Business Outlook, Aug: -7 vs. 5 exp.
 US: Initial Jobless Claims, Aug 10: 227 vs. 235 exp.
 US: Industrial Production (m/m%), Jul: -0.6 vs. -0.3 exp.
 US: NAHB Housing Market Index, Aug: 39 vs. 43 exp.

Good Morning

Stronger than expected US retail sales and jobless claims data helped dispel concerns the economy was entering a deeper slowdown and sent equities, treasury yields and the US dollar higher. The S&P gained 1.5%, extending its weekly advance to almost 4%. There were solid gains in European equities as well with the Euro Stoxx closing 1.7% higher on the day.

Headline US retail sales increased 1% in July, the largest increase in more than a year and well above expectations for a 0.4% gain. Core retail sales, which exclude autos and gas rose 0.4% which was also stronger than expected and points towards resilience in US consumers. The retail control group, a proxy for underlying consumer spending and a better measure of the underlying trend, rose by 0.3% casting doubt on the notion that a recession is imminent.

US initial jobless claims decreased to 227K, which was below consensus estimates, and the lowest level since early July. The report reduced concerns about the extent the labour market is cooling following the weaker than expected July payrolls data. Separately, industrial

production fell by 0.6% in July, and the underlying trend remains flat, suggesting further stagnation ahead.

US treasury yields moved sharply higher led the front end of the yield curve. 2-year yields spiked 15bps to 4.10% immediately following the data as investors reduced expectations for aggressive easing by the Fed. The market is pricing ~32bps of easing at the September FOMC, as the probability for a 50bps cut continues to be pared, although the August labour market report is likely to be a key input into the magnitude of any easing. 10-year yields increased 10bps to 3.93% with the curve maintaining its flattening bias from previous sessions.

Key monthly indicators continued to point to sluggish activity in the Chinese economy with weak domestic demand amid a prolonged downturn in the housing market. Fixed asset investment unexpectedly slowed to 3.6% for the first seven months of the year. Industrial production rose at a 5.1% annual rate in July, down from 5.3% the previous month. Retail sales increased 2.7% which was slightly stronger than consensus estimates.

The absence of a meaningful economic recovery is likely to see calls for additional policy stimulus to support activity. China's central bank Governor has pledged to take further steps to support the economic recovery but cautioned it won't be taking drastic measures.

The US dollar moved sharply higher aligned with US treasury yields. The dollar index advanced close to 0.5% with the dollar making its largest gains against the yen and Swiss franc. Growth sensitive commodity currencies - NZD, AUD & CAD - outperformed amongst G10 currencies. Notwithstanding the volatile period around the US data, NZD/USD is only modestly weaker in offshore trade. NZD/AUD remains lower, testing 0.9050 overnight, after the fall yesterday following stronger than expected July employment figures in Australia.

The relentless rally in NZ fixed income continued in the local session yesterday. 2-year swap rates fell a further 13bps to 3.76%, with soft inflation partials for July supporting the move lower in yield. The front end outperformed and the 2y/10y swaps curve steepened to +10bps. Government bonds underperformed relative to swaps with 10-year asset swap spreads widening back to +30bps.

The weekly government bond tender attracted reasonable investor demand. There were NZ\$1.3 billion of bids for the NZ\$500 million of bonds offered. However, the cover ratio for May-2034 was relatively soft, as the market looking ahead to the syndication of the new May-2036 nominal bond, which is likely to be launched early next week after the syndicate banks were announced today.

Australian 10-year bond futures are ~8bps higher from the local close yesterday, suggesting an upward directional bias for NZGB yields on the open.

The manufacturing PMI is released today for July. In June, the index fell to a record low of 41.1 when the pandemic volatility is excluded. UK retail sales should pick up from the weather impacted June reading. Later this evening, US consumer sentiment and inflation expectations data is released.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	BusinessNZ Manufacturing PMI	Jul	41.1	10:30	
NZ	PPI Output (q/q%)	2Q	0.9	10:45	
AU	RBA Governor Michele Bullock testimony			11:30	
NZ	RBNZ Governor speaks			12:30	
UK	Retail Sales Ex Auto Fuel (m/m%)	Jul	0.7	-1.5	18:00
US	Housing Starts	Jul	1333	1353	00:30
US	Building Permits	Jul	1425	1446	00:30
US	U. of Mich. Sentiment	Aug P	66.9	66.4	02:00
US	U. of Mich. 5-10 Yr Inflation	Aug P	2.9	3	02:00
US	Fed's Goolsbee Speaks in Fireside Chat				05:25

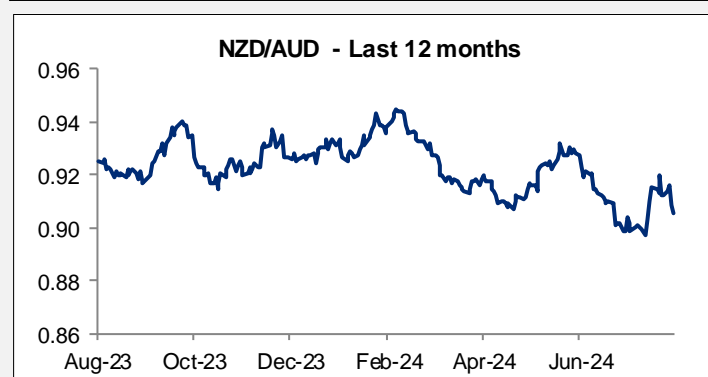
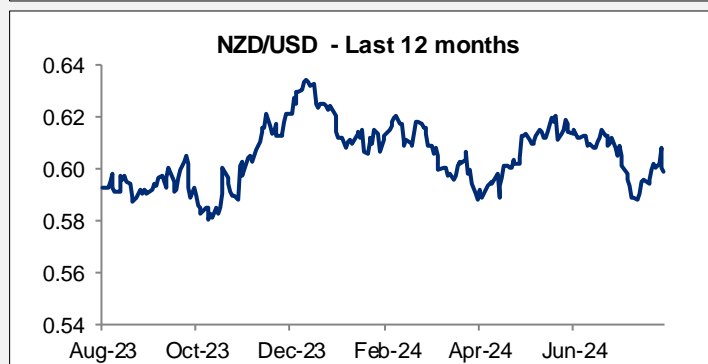
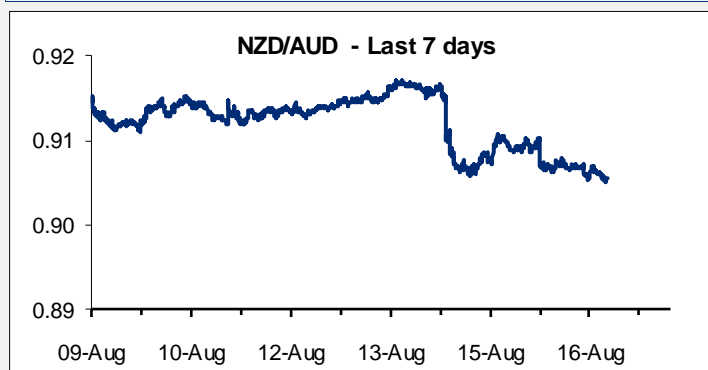
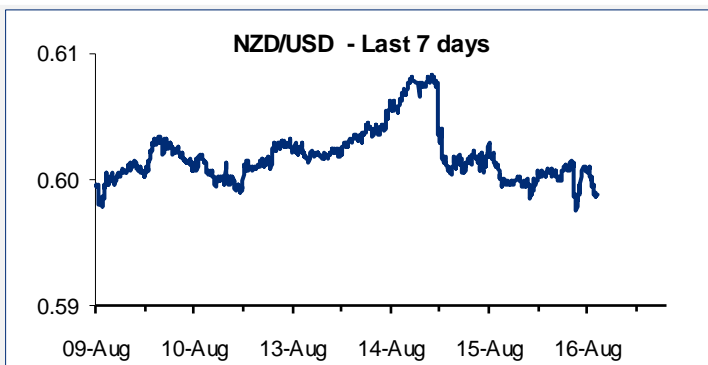
Source: Bloomberg, BNZ

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	0.5989	-0.2	0.5975	0.6015	CHF	0.8726	+0.9			S&P 500	5,541	+1.6	24.9	Oil (Brent)	81.03	+1.7
AUD	0.6615	+0.2	0.6596	0.6635	SEK	10.536	+0.6			Dow	40,523	+1.3	16.0	Oil (WTI)	78.15	+1.6
EUR	1.0978	-0.3	1.0950	1.1016	NOK	10.742	+0.2			Nasdaq	17,595	+2.3	29.1	Gold	2454.6	+0.6
GBP	1.2859	+0.2	1.2799	1.2872	HKD	7.796	+0.0			Stoxx 50	4,808	+1.7	12.1	HRC steel	660.0	+0.0
JPY	148.99	+1.1	147.10	149.32	CNY	7.174	+0.5			FTSE	8,347	+0.8	13.0	CRB	275.5	-0.3
CAD	1.3724	+0.1			SGD	1.322	+0.4			DAX	18,183	+1.7	15.3	Wheat Chic.	550.3	-1.0
NZD/AUD	0.9054	-0.4			IDR	15,700	+0.2			CAC 40	7,423	+1.2	2.1	Sugar	17.88	-0.5
NZD/EUR	0.5455	+0.2			THB	35.12	+0.1			Nikkei	36,727	+0.8	15.6	Cotton	66.65	+0.7
NZD/GBP	0.4657	-0.4			KRW	1,366	+0.7			Shanghai	2,877	+0.9	-8.7	Coffee	238.1	+1.4
NZD/JPY	89.23	+1.0			TWD	32.29	+0.0			ASX 200	7,866	+0.2	9.3	WM powder	3295	+0.2
NZD/CAD	0.8219	-0.1			PHP	56.94	-0.0			NZX 50	12,711	+1.1	8.1	Australian Futures		
NZ TWI	69.80	+0.1							VIX Index	15.43	-4.7	-6.3	3 year bond	96.53	0.03	
													10 year bond	96.01	-0.08	
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	5.36	3.90	3.49	USD	3.93	0.09	15-May-26	3.90	-0.13	BKBM 1-mth	5.36	-0.08			
AUD	4.35	4.34	3.78	4.12	AUD	3.87	-0.05	15-Apr-27	3.69	-0.12	BKBM 3-mth	5.27	-0.10			
NZD	5.25	5.27	3.76	3.86	NZD	4.15	-0.03	15-May-28	3.69	-0.10	1 year	4.37	-0.12			
EUR	3.75	3.54	2.75	2.52	GER	2.26	0.08	20-Apr-29	3.73	-0.09	2 year	3.76	-0.14			
GBP	5.00	5.30	4.10	3.62	GBP	3.92	0.10	15-May-30	3.82	-0.07	3 year	3.58	-0.12			
JPY	0.23	-0.03	0.43	0.87	JPY	0.84	0.02	15-May-31	3.92	-0.06	5 year	3.59	-0.09			
CAD	4.50	4.97	3.26	2.98	CAD	3.08	0.05	15-May-32	4.02	-0.05	7 year	3.71	-0.07			
								14-Apr-33	4.08	-0.04	10 year	3.86	-0.06			
								15-May-34	4.15	-0.03	15 year	4.04	-0.06			
								15-May-35	4.22	-0.03						
								15-May-37	4.33	-0.04						
								15-May-41	4.48	-0.06						
								15-May-51	4.53	-0.06						
								15-May-54	4.56	-0.07						

* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer
 Rates are as of: NZT 06:23
 Source: Bloomberg

NZD exchange rates

16/08/2024	6:22 am	Prev. NY close
USD	0.5989	0.5998
GBP	0.4657	0.4675
AUD	0.9054	0.9091
EUR	0.5455	0.5447
JPY	89.23	88.37
CAD	0.8219	0.8227
CHF	0.5226	0.5189
DKK	4.0702	4.0638
FJD	1.3504	1.3549
HKD	4.6688	4.6741
INR	50.28	50.37
NOK	6.4335	6.4289
PKR	166.67	166.92
PHP	34.09	34.16
PGK	2.3258	2.3266
SEK	6.3101	6.2798
SGD	0.7917	0.7895
CNY	4.2966	4.2832
THB	20.95	20.96
TOP	1.3870	1.4047
VUV	72.02	71.88
WST	1.6414	1.6311
XPF	65.16	65.14
ZAR	10.7849	10.8339



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	1.07	1.33
3 Months	1.92	2.42
6 Months	3.92	4.92
9 Months	6.92	8.93
1 Year	10.34	13.35

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-6.62	-6.02
3 Months	-16.33	-15.06
6 Months	-21.12	-18.44
9 Months	-18.17	-13.48
1 Year	-13.35	-5.65

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