

Research Markets Today

16 January 2025

Events Round-Up

UK: CPI (y/y%), Dec: 2.5 vs. 2.6 exp.
 UK: CPI core (y/y%), Dec: 3.2 vs. 3.4 exp.
 UK Services CPI (y/y%), Dec: 4.4 vs. 4.8 exp.
 US: Empire manufacturing, Jan: -12.6 vs. 3.0 exp.
 US: CPI (m/m%), Dec: 0.4 vs. 0.4 exp.
 US: CPI ex food and energy (m/m%), Dec: 0.2 vs. 0.3 exp.
 US: CPI (y/y%), Dec: 2.9 vs. 2.9 exp.
 US: CPI ex food and energy (y/y%), Dec: 3.2 vs. 3.3 exp.

Good Morning

Weaker than expected UK and US CPI data have supported global bond markets, driving down rates and supporting equity markets. USD weakness after the CPI report reversed course, so a lift in the NZD to 0.5650 wasn't sustained. The yen is the strongest of the majors, supported by lower global rates and the BoJ building the case for a possible rate hike next week.

US headline CPI inflation rose 0.4% m/m as expected, seeing the annual increase push up to 2.9% y/y. However, the core measure (excluding food and energy) was a tenth lower than the market consensus at 0.2% m/m, breaking a four-month run of 0.3% increases, and seeing the annual figure tick down to 3.2% y/y. Furthermore, the services CPI ex housing and energy, a series which Fed Chair Powell has previously noted, rose by just 0.2%, the weakest since July. Combining the PPI and CPI components that feed into the PCE deflator, the Fed's inflation target, there is a high degree of probability that the core measure rose by 0.2% m/m, leaving the annual increase at 2.8%.

The data are consistent with a narrative that inflation has settled in a 2½-3% range, above the 2% target but as long as inflation expectations remain well anchored, this isn't a particular concern. The data are consistent with the market's view that the Fed can take an extended pause on the rate cutting cycle, while the slightly weaker core measures reduce the risk that the Fed might have to reverse course and tighten policy later in the year, a narrative that was starting to pepper commentaries to fit the recent bond market sell-off.

Speaking after the release, NY Fed President Williams said "the process of disinflation remains in train...but we are

still not at our 2% goal". Richmond Fed President Barkin echoed those comments and added that there was still work to do, "I do still think we need to be restrictive to seal the final mile".

The market-friendly release drove lower rates, stronger equities and a weaker USD, although the latter fully unwound. The next Fed easing is now fully priced by July, slightly earlier, while US Treasury yields are down 9-14bps across the curve. The 10-year rate is currently at 4.66%, well down after its temporary break just over 4.8% yesterday.

Lower rates have supported equity markets, with the S&P500 is up 1½% in early afternoon trading. Profit announcements from US major banks JP Morgan, Goldman Sachs, Citigroup and Wells Fargo were all positive, seeing the KBW bank index up over 3½%. The Euro Stoxx 600 index closed up 1.3%.

UK CPI inflation data were also market-friendly, with all key measures coming in below consensus, more so the services CPI which rose by only 4.4% y/y compared to the 4.8% expected. The headline measure nudged down to 2.5% y/y while the core measure fell to 3.2% y/y, matching the three-year low recorded a few months ago.

The data was a relief to the battered UK gilt market, where soaring rates over the past month have put it in the spotlight. The market gained increased confidence that the BoE would cut its policy rate by 25bps at the next meeting in early February, the probability rising to 90% from 64%. UK gilt yields fell 14-16bps across the curve.

In currency markets, the USD DXY index fell 0.5% immediately after the US CPI release but soon recovered and now shows little net movement for the day. The yen has been the strongest performer. BoJ Governor Ueda said yesterday that the Bank will discuss a rate hike next week, following up the same comment by his Deputy earlier in the week. Governor Ueda also indicated rising confidence over wage increases from reports he heard about early in the New Year. His comments, alongside lower global yields, supported the yen with USD/JPY down nearly 1% to 156.50.

The NZD bounced higher post the US CPI release to 0.5650 but has since fallen back to just over the 0.56 mark. Despite higher NZ-Australia rate differentials (see below), NZD/AUD has pushed down to 0.9025. On the crosses

NZD/JPY has shown the largest move, down to below 88. The soft UK CPI print saw only a temporary movement in GBP and it is relatively flat at 1.220 and NZD/GBP has traded sideways, hovering just below 0.46. NZD/EUR is up modestly to around 0.5460.

Oil prices are up around 2%, with Brent crude trading at USD81 per barrel. There was no reaction to news that Israel and Hamas had agreed to a deal to pause the fighting in Gaza, easing the path towards an eventual end to the war.

The domestic rates market continued its recent underperformance on a cross market basis, as market re-positioning occurs, with rates higher across the board. NZGB yields were up 7-9bps around the 5-10 year maturities, with the 2035 bond up to a seven-month high of 4.86%. The overnight rally in bonds should see a notable reversal today. The 2-year swap rate rose by 7bps to 3.65%, now marked up 28bps over the past three trading days, while the 10-year swap rate rose by 8bps to 4.29%.

In the day ahead, NZ CPI monthly figures for various components will help firm up Q4 CPI estimates. Australian

labour market data are expected to show the unemployment rate ticking up to 4.0% after its shock move down to 3.9% in November. Tonight sees the release of monthly UK GDP data, US retail sales and jobless claims.

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Coming Up

		Period Cons. Prev. NZT		
NZ	Selected monthly prices	Dec		10:45
AU	Employment change (k)	Dec	15	36 13:30
AU	Unemployment rate (%)	Dec	4.0	3.9 13:30
UK	GDP (m/m%)	Nov	0.2	-0.1 20:00
UK	Industrial production (m/m%)	Nov	0.1	-0.6 20:00
US	Retail sales (m/m%)	Dec	0.6	0.7 02:30
US	Retail Sales ex auto, gas (m/m%)	Dec	0.4	0.2 02:30
US	Retail sales control group (m/m%)	Dec	0.4	0.4 02:30
US	Initial jobless claims (k)	11-Jan	210	201 02:30

Source: Bloomberg, BNZ

Currencies								Equities				Commodities			
FX Majors		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	0.5612	+0.1	0.5597	0.5651	CHF	0.9131	+0.1	S&P 500	5,939	+1.6	24.1	Oil (Brent)	81.37	+1.8	
AUD	0.6220	+0.4	0.6186	0.6247	SEK	11.162	-0.1	Dow	43,154	+1.5	14.8	Oil (WTI)	79.44	+2.5	
EUR	1.0285	-0.2	1.0260	1.0354	NOK	11.333	-0.3	Nasdaq	19,439	+2.0	29.8	Gold	2716.2	+1.3	
GBP	1.2213	-0.0	1.2163	1.2306	HKD	7.788	+0.0	Stoxx 50	5,032	+1.0	13.0	HRC steel	699.0	-1.1	
JPY	156.56	-0.9	155.95	157.45	CNY	7.332	+0.0	FTSE	8,301	+1.2	9.3	CRB	307.3	-0.6	
CAD	1.4337	-0.1			SGD	1.368	+0.1	DAX	20,575	+1.5	23.8	Wheat Chic.	559.3	+0.2	
NZD/AUD	0.9023	-0.3			IDR	16,326	+0.3	CAC 40	7,475	+0.7	0.8	Sugar	18.04	-1.5	
NZD/EUR	0.5456	+0.4			THB	34.62	-0.2	Nikkei	38,445	-0.1	7.9	Cotton	67.69	+0.3	
NZD/GBP	0.4595	+0.1			KRW	1,457	-0.2	Shanghai	3,227	-0.4	11.5	Coffee	330.8	+2.7	
NZD/JPY	87.86	-0.8			TWD	33.02	+0.0	ASX 200	8,213	-0.2	10.8	WM powder	3800	+0.7	
NZD/CAD	0.8046	+0.0			PHP	58.61	-0.0	NZX 50	12,944	+0.5	10.0	Australian Futures			
NZ TWI	67.70	+0.0						VIX Index	16.60	-11.3	+25.3	3 year bond	95.96	0.00	
Interest Rates											10 year bond			95.44	0.12
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	4.50	4.85	4.15	4.21	USD	4.66	-0.13	15-Apr-27	3.80	0.03	BKBM 1-mth	4.37	0.00		
AUD	4.35	4.36	3.91	4.52	AUD	4.62	0.01	15-May-28	3.95	0.08	BKBM 3-mth	4.12	0.00		
NZD	4.25	4.12	3.65	4.29	NZD	4.86	0.07	20-Apr-29	4.10	0.09	1 year	3.68	0.04		
EUR	3.00	2.76	2.37	2.51	GER	2.56	-0.09	15-May-30	4.25	0.09	2 year	3.65	0.07		
GBP	4.75	5.30	4.29	4.19	GBP	4.73	-0.16	15-May-31	4.43	0.09	3 year	3.70	0.09		
JPY	0.23	-0.03	0.69	1.14	JPY	1.26	0.01	15-May-32	4.59	0.09	5 year	3.89	0.09		
CAD	3.25	4.97	2.93	3.18	CAD	3.44	-0.11	14-Apr-33	4.69	0.08	7 year	4.07	0.08		
								NZ Inflation-Indexed Bonds			15-May-34			4.77	0.07
								Sep-30			2.56	0.02	15-May-35	4.86	0.07
								Sep-35			2.97	0.02	15-May-36	4.95	0.07
								Sep-40			3.23	0.02	15-May-37	5.04	0.07
													15-May-41	5.25	0.06
													15-May-51	5.43	0.06
													15-May-54	5.43	0.05

* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer
 Rates are as of: NZT 06:58
 Source: Bloomberg

NZD exchange rates

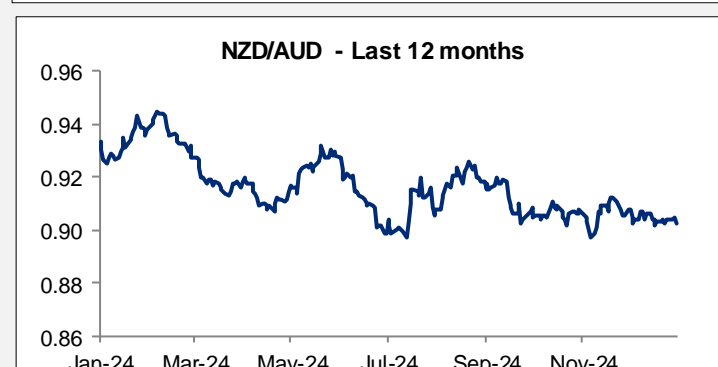
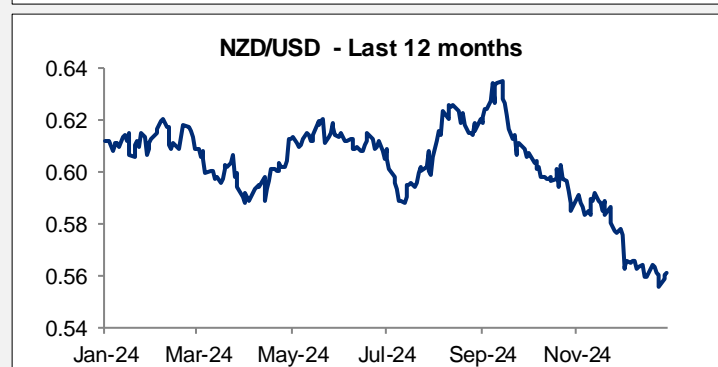
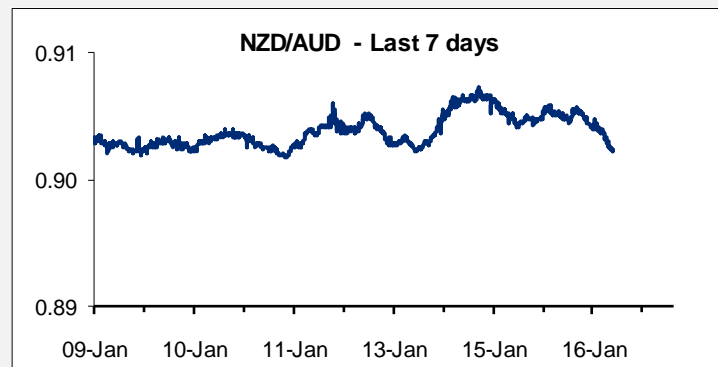
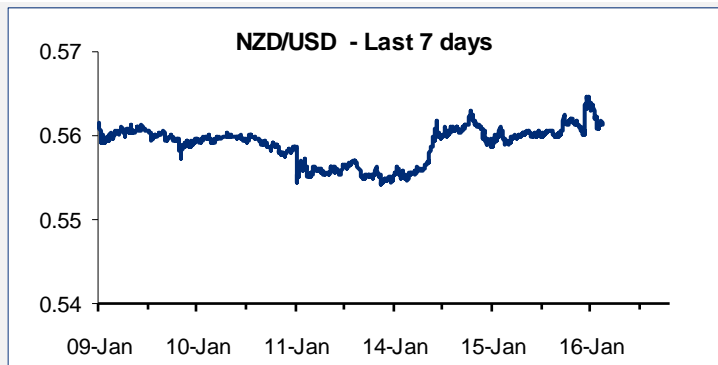
16/01/2025 6:58 am		Prev. NY close
USD	0.5612	0.5604
GBP	0.4595	0.4588
AUD	0.9023	0.9046
EUR	0.5456	0.5437
JPY	87.86	88.52
CAD	0.8046	0.8041
CHF	0.5124	0.5113
DKK	4.0709	4.0562
FJD	1.3100	1.3180
HKD	4.3706	4.3637
INR	48.47	48.56
NOK	6.3599	6.3725
PKR	156.12	156.11
PHP	32.89	32.85
PGK	2.2502	2.2470
SEK	6.2643	6.2602
SGD	0.7678	0.7658
CNY	4.1147	4.1083
THB	19.49	19.48
TOP	1.3684	1.3662
VUV	70.17	70.07
WST	1.5841	1.5843
XPF	65.36	65.22
ZAR	10.5434	10.6013

NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	0.98	1.08
3 Months	6.44	6.91
6 Months	18.36	19.36
9 Months	31.13	33.14
1 Year	43.60	46.60

NZD/AUD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	1.33	1.64
3 Months	7.44	8.78
6 Months	21.53	24.22
9 Months	35.68	40.35
1 Year	48.64	56.00



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