

Research Markets Today

16 September 2024

Events Round-Up

NZ: REINZ house sales (y/y%), Aug: -0.7 vs. 14.5 prev.
 NZ: Manufacturing PMI, Aug: 45.8 vs. 44.4 prev.
 US: U. of Mich. consumer sent., Sep: 69.0 vs. 68.5 exp.
 US: U. of Mich. 5-10y inflation exp., Sep: 3.1 vs. 3.0 prev.
 CH: Industrial production (y/y%), Aug: 4.5 vs. 4.7 exp.
 CH: Retail sales (y/y%), Aug: 2.1 vs. 2.5 exp.
 CH: Fixed assets invest. (ytd, y/y%), Aug: 3.4 vs. 3.5 exp.

Good Morning

Markets closed on Friday with the pricing for the Fed's first easing for the cycle this week at a toss up between 25bps and 50bps, with media reports adding to the "confusion". The US Treasuries curve steepened further, with a short end-led rally in bonds. Lower rates supported US equities, adding to the strong gains for the week. Commodity currencies slightly underperformed, seeing the NZD close the week just below 0.6160.

Friday's price action was defined by lower rates, following articles in the WSJ and FT in quick succession during the morning, NZ time, which raised the chance of a 50bps rate cut at this week's FOMC meeting. Ahead of those articles, the market had largely settled for the likelihood of a 25bps cut. The WSJ's Nick Timiraos said the Fed faced a "dilemma", a difficult decision in choosing between 25bps or 50bps. The FT's Colby Smith said the Fed faced a "close call". There is suspicion that a Fed insider guided the tone of these articles during the blackout period ahead of the meeting. Thrown into the mix, ex NY Fed President Dudley said "there's a strong case for 50", after previously expecting just 25bps.

These articles and comments drove lower rates on Friday, with Fed Funds futures implying a close to even bet between a 25bps or 50bps rate cut. US Treasury yields stepped down on the Asia open, with the 2-year rate ending the day down 6bps at 3.58% and the 10-year rate down 2bps to 3.65%, albeit little changed from the NZ close. The price action took the US 2s10s curve to +7bps, the steepest since mid-2022.

Lower rates helped support US equities, with the S&P500 up 0.5%, capping off a strong recovery of 4% for the week,

almost fully recovering the previous week's loss. The Euro Stoxx 600 index rose 0.8%.

In economic news, US consumer sentiment as measured by the University of Michigan survey nudged up to a four-month high of 69.0, with both current conditions and expectations components contributing. While year-ahead inflation expectations fell one-tenth to 2.7%, the lowest since 2020, the 5-years-ahead measure rose one-tenth to 3.1%.

China credit growth continued to underwhelm and the PBoC made a rare statement accompanying the release, saying it was preparing to launch some additional policy measures to further lower financing costs. Earlier in the day, the government said it will raise the retirement age for the first time since 1978 – up to 63 for 60 for men and up to 55 from 50 for most women, except up to 58 from 55 for those women in management positions.

After the weekend close, China activity data for August was weaker than expected across the key industrial production, retail sales and investment indicators. It was further evidence of slower growth momentum and GDP likely running below the government's 5% annual target. Further stimulus measures will be needed quickly if the target is to be met.

There was plenty of ECB-speak on Friday in the aftermath of its rate cut the previous day. President Lagarde said she was open to a rate cut in October if data suggested a significant change in view from its baseline, but more comprehensive information will only be available ahead of the December meeting. Market pricing is consistent with a slightly less than even chance of a 25bps cut in October, while December is priced at 40bps.

Lower US rates were a drag on the USD, but commodity currencies underperformed. The NZD was modestly weaker, capping off an uneventful week encompassing a less than 1-cent trading range, closing just below 0.6160. The AUD briefly fell below 0.67 before closing the week just above the figure. NZD/AUD was slightly weaker, closing not much above its low for the week, just over 0.9180.

Against a backdrop of lower Treasury yields, JPY outperformed, with USD/JPY down 0.7% on the day to 140.85 while NZD/JPY was weaker at 86.7. NZD fell about 0.5% against EUR and GBP.

Global forces sent NZ rates lower on Friday, with NZGB and swap rates down 5-6bps across the curve. The 10-year NZGB yield closed the session at 4.10%, its lowest level in 17-months. The 10-year swap rate closed at 3.77%, its lowest level in over two years. REINZ housing market data showed soft activity and house prices in August, with still no signs of lower mortgage rates sparking any life into the market. The manufacturing PMI recovered for a second consecutive month but remained well in contractionary territory at 45.8.

On the economic calendar in the week ahead there are some top-tier releases. As noted, the FOMC meeting will be a key event and ahead of that the market will be on the lookout for further “inside information” to judge whether a 25bps or 50bps cut is more likely. Policy updates from the BoE and BoJ will also be released but neither are

expected to adjust policy. Domestically, we find out just how weak the economy was in Q2 with the GDP release while elsewhere there is CPI data for Canada, UK and Japan, US retail sales and Australia’s monthly employment report. The week begins on a quiet note, with NZ’s PSI and the Empire manufacturing survey in the US.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Performance of services index	Aug		44.6	10:30
US	Empire manufacturing	Sep	-4.3	-4.7	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	Last	% Day	% Year	Last	Net Day				
NZD	0.6158	-0.4	0.6152	0.6192	CHF	0.8488	-0.3	S&P 500	5,626	+0.5	25.9	Oil (Brent)	71.61	-0.5	
AUD	0.6704	-0.3	0.6692	0.6727	SEK	10.233	-0.5	Dow	41,394	+0.7	19.7	Oil (WTI)	68.65	-0.5	
EUR	1.1075	+0.0	1.1073	1.1102	NOK	10.661	-0.5	Nasdaq	17,684	+0.7	28.0	Gold	2586.8	+1.2	
GBP	1.3124	+0.0	1.3115	1.3158	HKD	7.800	-0.0	Stoxx 50	4,844	+0.6	14.7	HRC steel	698.0	+0.0	
JPY	140.85	-0.7	140.29	141.41	CNY	7.097	-0.3	FTSE	8,273	+0.4	9.9	CRB	273.8	+0.3	
CAD	1.3590	+0.0			SGD	1.298	-0.3	DAX	18,699	+1.0	19.5	Wheat Chic.	612.3	+2.5	
NZD/AUD	0.9185	-0.2			IDR	15,402	-0.2	CAC 40	7,465	+0.4	3.4	Sugar	19.01	-0.3	
NZD/EUR	0.5560	-0.5			THB	33.27	-0.5	Nikkei	36,582	-0.7	9.1	Cotton	69.48	-0.8	
NZD/GBP	0.4692	-0.5			KRW	1,330	-0.8	Shanghai	2,704	-0.5	-13.3	Coffee	259.5	+4.0	
NZD/JPY	86.73	-1.1			TWD	31.99	-0.5	ASX 200	8,100	+0.3	11.3	WM powder	3450	-0.4	
NZD/CAD	0.8368	-0.4			PHP	56.00	-0.3	NZX 50	12,833	+0.1	13.1	Australian Futures			
NZ TWI	70.70	-0.6						VIX Index	16.56	-3.0	+22.8	3 year bond	96.57	0.07	
Interest Rates											10 year bond			96.16	0.03
	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	5.21	3.38	3.19	USD	3.65	-0.02	15-May-26	3.87	-0.05	BKBM 1-mth	5.32	0.00		
AUD	4.35	4.42	3.57	3.92	AUD	3.82	-0.03	15-Apr-27	3.66	-0.06	BKBM 3-mth	5.10	0.00		
NZD	5.25	5.10	3.65	3.77	NZD	4.10	-0.06	15-May-28	3.64	-0.05	1 year	4.25	-0.04		
EUR	3.75	3.48	2.46	2.40	GER	2.15	-0.00	20-Apr-29	3.69	-0.05	2 year	3.65	-0.06		
GBP	5.00	5.30	3.76	3.42	GBP	3.77	-0.01	15-May-30	3.79	-0.06	3 year	3.49	-0.06		
JPY	0.23	-0.03	0.45	0.88	JPY	0.85	-0.02	15-May-31	3.89	-0.06	5 year	3.50	-0.06		
CAD	4.25	4.97	2.88	2.79	CAD	2.90	-0.01	15-May-32	3.99	-0.06	7 year	3.61	-0.05		
							NZ Inflation-Indexed Bonds		14-Apr-33	4.05	-0.06	10 year	3.77	-0.05	
							Sep-30	2.09	-0.05	15-May-34	4.10	-0.06	15 year	3.96	-0.05
							Sep-35	2.41	-0.05	15-May-35	4.17	-0.06			
							Sep-40	2.65	-0.05	15-May-36	4.25	-0.05			
									15-May-37	4.34	-0.05				
									15-May-41	4.53	-0.05				
									15-May-51	4.60	-0.06				
									15-May-54	4.64	-0.06				

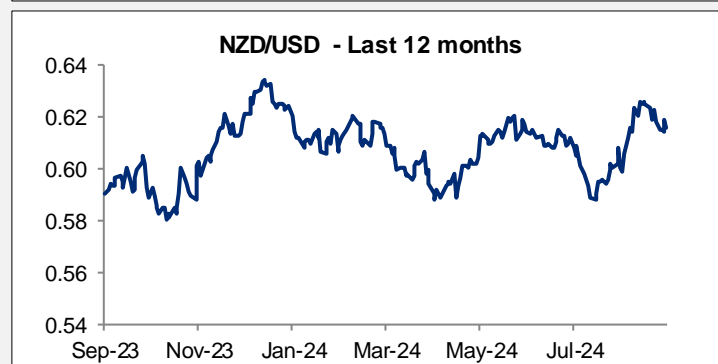
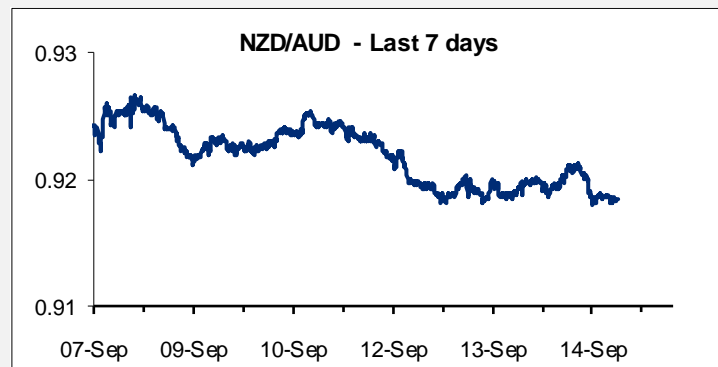
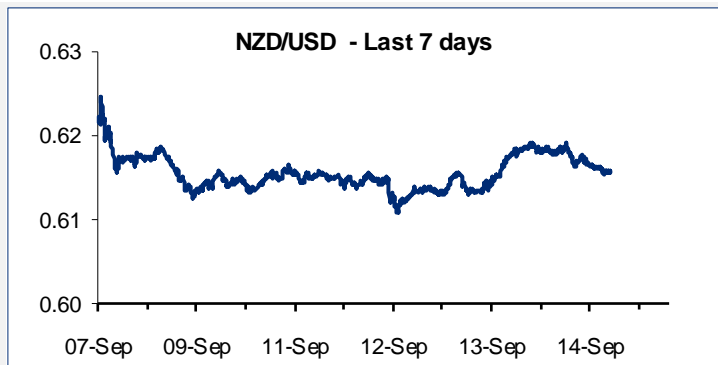
* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer

Rates at NY close

Source: Bloomberg

NZD exchange rates

14/09/2024	NY close	Prev. NY close
USD	0.6158	0.6182
GBP	0.4692	0.4710
AUD	0.9185	0.9197
EUR	0.5560	0.5582
JPY	86.73	87.67
CAD	0.8368	0.8395
CHF	0.5226	0.5262
DKK	4.1483	4.1657
FJD	1.3640	1.3778
HKD	4.8022	4.8239
INR	51.66	51.91
NOK	6.5642	6.6245
PKR	171.42	172.20
PHP	34.47	34.73
PGK	2.4051	2.4139
SEK	6.3005	6.3586
SGD	0.7989	0.8045
CNY	4.3697	4.4000
THB	20.52	20.86
TOP	1.4187	1.4261
VUV	73.42	74.07
WST	1.6634	1.6807
XPF	66.51	66.78
ZAR	10.9103	11.0046



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	0.09	0.42
3 Months	1.72	2.23
6 Months	-1.09	-0.09
9 Months	-5.83	-1.97
1 Year	-9.73	-6.72

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-5.19	-4.54
3 Months	-10.46	-9.03
6 Months	-13.91	-11.09
9 Months	-13.69	-5.87
1 Year	-10.58	-2.77

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