

Research Markets Today

17 June 2024

Events Round-Up

NZ: Manufacturing PMI, May: 47.2 vs. 48.9 prev.

NZ: Food prices (m/m%), May: -0.2 vs. 0.6 prev.

JN: BOJ target rate (upper bound), Jun: 0.1 vs. 0.1 exp.

US: U. of Mich. cons. sentiment, Jun: 65.6 vs. 72 exp.

US: U. of Mich. 5-10y Inflation exp., Jun: 3.1 vs. 3.0 exp.

Good Morning

A risk off tone dominated global markets into the end of last week as concern about the political crisis in France deepened. European equities were under pressure with the Euro Stoxx falling 2% and the spread between French and German 10-year bonds increased to 77bps, the widest level in more than 10 years. The impact on US equities was more muted with the S&P recovering from an early session dip to close unchanged. Global bond yields declined, and the dollar was broadly stronger.

European markets have been roiled amid a pickup in political risk premium since French President Macron called a snap election. Polling showing the rise in populist parties is increasing investor concerns about the fiscal outlook. French credit default swaps are now trading in line with lower rated Spain and Portugal. The CAC 40 index fell more than 6% over the past week and the euro has been the weakest G10 currency in the same period.

University of Michigan's consumer confidence index was weaker than expected. The index fell to 65.6, well below the consensus estimate of 72.0, and is set against the backdrop of lower gas prices and higher stock markets which would generally support confidence. The expectations index, which has a better relationship with consumer spending, registered a smaller decline.

Medium-term inflation expectations increased to 3.1% from 3.0% and have been slow to retrace despite the decline in actual inflation. However, due to recent changes in the collection of the data, University of Michigan said the poll of longer-run inflation expectations should be 'interpreted as essentially unchanged'.

Fed policy makers have emerged from the pre-FOMC blackout period. Cleveland Fed President Loretta Mester said that while the inflation data has been welcome news, she still sees inflation risks as skewed to the upside, and a

few more months of good figures are needed before interest rate cuts happen. The market is pricing about 50bps of Fed rate cuts by the end of the year following the FOMC and inflation releases last week.

The Bank of Japan kept its policy rate unchanged at 0.1% as was widely expected and plans to reduce its JGB purchases. However, the plan for reduced bond buying will be specified at its next meeting, and the timing came as a disappointment to the market, contributing to a knee-jerk move lower in the yen. After falling as much as 0.8% against the dollar, to the weakest level since the market intervention in late April, the yen recovered.

Investor risk aversion contributed to lower global bond yields with the largest moves in German bunds where 10-year yields fell 11bps to 2.36%. 10-year US treasury yields extended the recent rally falling 3bps to 4.21%, the lowest level since late March. The yield curve flattened with 2-year yields little changed at 4.70%. The 2y/10y treasury curve is back at the flattest level for the year near -47bps.

The US dollar was generally stronger with the largest gains against European currencies. EUR/USD traded below 1.07 to 1-month lows before staging a modest recovery. The yen rebounded from the post-BOJ weakness and outperformed along with the Swiss Franc given their defensive properties amid a softer risk backdrop. NZD/USD dipped to lows below 0.6120 aligned with the broader dollar backdrop. NZD/AUD was stable while the NZD ended higher against the euro and pound.

NZ fixed interest markets ended the local session on Friday lower in yield. Offshore markets set the initial tone which gained support from the weak manufacturing PMI and soft inflation partials. 2-year swaps closed 6bps lower at 4.93% with the curve a touch flatter. 2y/10y is back towards the recent lows at -50bps. 10-year government bonds closed 6bps lower at 4.61%.

Selected price indicators for May were generally soft and suggests some downside risk to our 3.6% forecast for Q2 headline inflation which is released mid-July. Our forecast matches the RBNZ's 3.6% projection from the May Monetary Policy Statement. The manufacturing PMI declined to 47.2 in May, extending the length of time in contractionary territory to 15 consecutive months.

Australian 10-year government bond futures are 6bps lower in yield terms from the local close on Friday, pointing towards lower NZ yields on the open.

The services PMI is for May released today. The index reached the weakest level in more than two years in April. Monthly China activity data will be monitored with investors looking signs of recovery in very weak consumption. The Peoples Bank of China is expected to leave its MLF policy rate unchanged at 2.5%.

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Coming Up

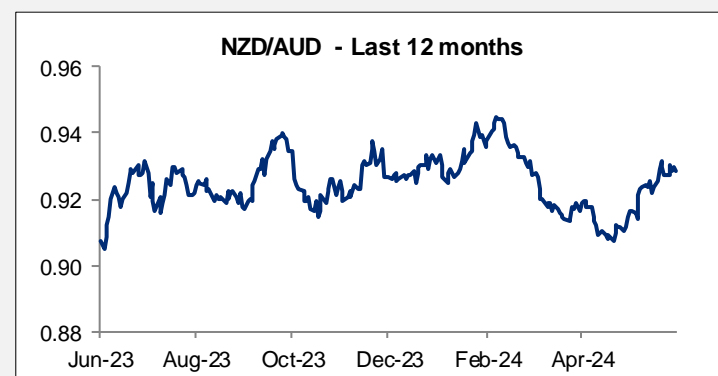
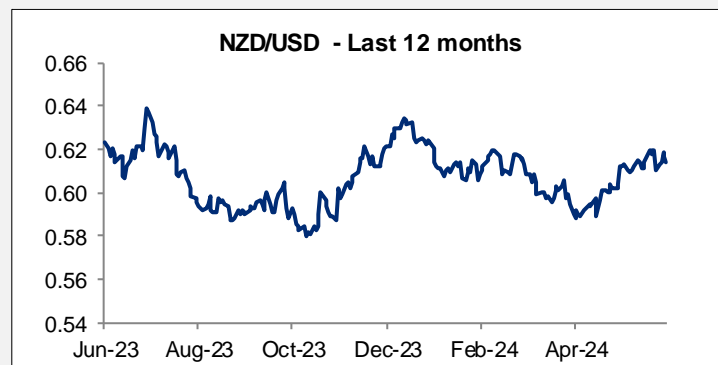
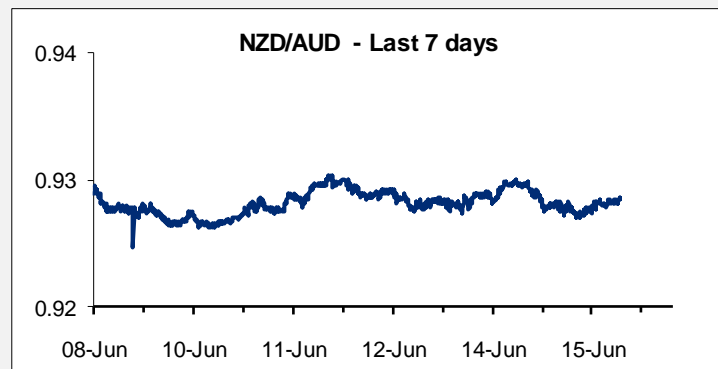
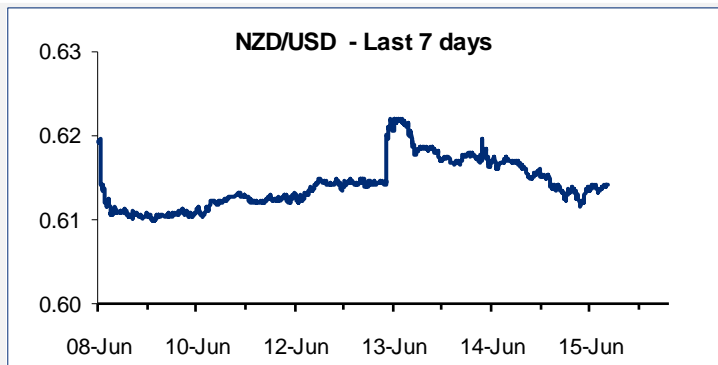
		Period	Cons.	Prev.	NZT
NZ	REINZ House Sales (y/y%)	May	25.3	09:00	
NZ	Performance Services Index	May	47.1	10:30	
CH	1-Yr MLF Rate	42887	2.5	2.5	13:20
CH	Industrial Production (y/y%)	May	6	6.7	14:00
CH	Retail Sales (y/y%)	May	3	2.3	14:00
CH	Fixed Assets Ex Rural YTD (y/y%)	May	4.2	4.2	14:00
US	Empire Manufacturing	Jun	-13	-15.6	00:30
US	Fed's Harker Speaks on Economic Outlook				05:00

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	Last	Net Day			
NZD	0.6142	-0.4	0.6116	0.6143	CHF	0.8907	-0.4			S&P 500	5,432	-0.0	24.2	Oil (Brent)	82.60	-0.2
AUD	0.6615	-0.3	0.6592	0.6624	SEK	10.518	+0.4			Dow	38,589	-0.1	13.6	Oil (WTI)	78.48	-0.2
EUR	1.0706	-0.3	1.0668	1.0727	NOK	10.675	+0.2			Nasdaq	17,689	+0.1	29.8	Gold	2331.4	+1.4
GBP	1.2687	-0.6	1.2657	1.2736	HKD	7.812	+0.0			Stoxx 50	4,839	-2.0	10.6	HRC steel	735.0	+0.0
JPY	157.40	+0.2	156.89	158.20	CNY	7.256	+0.0			FTSE	8,147	-0.2	7.2	CRB	294.0	-0.5
CAD	1.3735	-0.1			SGD	1.353	+0.2			DAX	18,002	-1.4	10.4	Wheat Chic.	627.3	-1.6
NZD/AUD	0.9285	-0.1			IDR	16,412	+0.9			CAC 40	7,503	-2.7	2.4	Sugar	19.43	-0.8
NZD/EUR	0.5737	-0.1			THB	36.68	-0.2			Nikkei	38,815	+0.2	15.2	Cotton	70.97	-0.5
NZD/GBP	0.4841	+0.2			KRW	1,379	+0.4			Shanghai	3,033	+0.1	-7.4	Coffee	224.4	-0.8
NZD/JPY	96.67	-0.2			TWD	32.35	+0.0			ASX 200	7,724	-0.3	6.5	WM powder	3265	-0.2
NZD/CAD	0.8436	-0.5			PHP	58.65	+0.1			NZX 50	11,865	-0.1	0.5	Australian Futures		
NZ TWI	72.61	-0.2							VIX Index	12.66	+6.0	-8.8	3 year bond	96.18	0.06	
Interest Rates						NZ Government Bonds				NZ BKBM and Swap Yields						
	Rates		Swap Yields		Benchmark 10 Yr Bonds		Last	Chg		Last	Chg	Last	Chg			
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day								Last	Chg	Last
USD	5.50	5.60	4.54	3.81	USD	4.22	-0.02	15-May-26	4.77	-0.05	BKBM 1-mth	5.60	0.00			
AUD	4.35	4.37	4.08	4.30	AUD	4.12	-0.07	15-Apr-27	4.58	-0.06	BKBM 3-mth	5.61	-0.01			
NZD	5.50	5.61	4.93	4.43	NZD	4.61	-0.05	15-May-28	4.49	-0.06	1 year	5.40	-0.04			
EUR	3.75	3.72	3.20	2.72	GER	2.36	-0.11	20-Apr-29	4.46	-0.05	2 year	4.93	-0.06			
GBP	5.25	5.30	4.52	3.76	GBP	4.06	-0.07	15-May-30	4.47	-0.05	3 year	4.65	-0.06			
JPY	0.08	-0.03	0.36	0.94	JPY	0.94	-0.03	15-May-31	4.50	-0.06	5 year	4.41	-0.06			
CAD	4.75	4.96	4.13	3.54	CAD	3.28	-0.05	15-May-32	4.55	-0.06	7 year	4.38	-0.07			
								14-Apr-33	4.57	-0.06	10 year	4.43	-0.08			
								15-May-34	4.61	-0.05	15 year	4.56	-0.08			
								15-May-35	4.66	-0.05						
								15-May-37	4.77	-0.05						
								15-May-41	4.89	-0.04						
								15-May-51	4.90	-0.04						
								15-May-54	4.92	-0.04						

* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer
 Rates at NY close
 Source: Bloomberg

NZD exchange rates

15/06/2024	NY close	Prev. NY close
USD	0.6142	0.6168
GBP	0.4841	0.4833
AUD	0.9285	0.9295
EUR	0.5737	0.5745
JPY	96.67	96.86
CAD	0.8436	0.8477
CHF	0.5471	0.5514
DKK	4.2797	4.2853
FJD	1.3818	1.3873
HKD	4.7979	4.8174
INR	51.32	51.53
NOK	6.5563	6.5737
PKR	170.93	171.66
PHP	36.03	36.14
PGK	2.3578	2.3687
SEK	6.4599	6.4639
SGD	0.8311	0.8334
CNY	4.4565	4.4733
THB	22.58	22.61
TOP	1.4168	1.4298
VUV	73.80	74.11
WST	1.6670	1.6741
XPF	68.06	68.35
ZAR	11.2927	11.3697



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.22	0.23
3 Months	-0.29	0.12
6 Months	-2.22	-1.23
9 Months	-7.62	-1.24
1 Year	-9.20	-6.21

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-8.40	-7.57
3 Months	-24.67	-23.53
6 Months	-47.89	-44.99
9 Months	-70.58	-58.60
1 Year	-82.98	-74.28

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