

Research Markets Today

17 September 2024

Events Round-Up

NZ: Performance of services index, Aug: 45.5 vs. 45.2 prev.

US: Empire manufacturing, Sep: 11.5 vs. -4.3 exp.

Good Morning

US rates are lower across the board on rising bets that the Fed will front-load the easing cycle, starting with a 50bps rate cut later this week. Lower rates have supported US equities but have worked against the USD, which is broadly weaker. The NZD has recovered to 0.6190 and USD/JPY made a brief foray below 140. Domestic rates continue to follow the lead of the US market, with substantial easing priced in over coming meetings, much closer to a run of 50bps rather than 25bps cuts.

The new week has begun with traders betting on an increased chance of a 50bps rate cut by the Fed later this week to kick off the easing cycle. This follows the price action on Friday after FT and WSJ articles sowed the seed for a larger cut, with the suspicion being that a Fed insider was responsible for guiding that tone. Since those Friday morning (NZ time) articles there has been another WSJ article one, this time by Greg Ip "Interest Rates Are Too High. The Fed Should Cut by a Half Point" over the weekend and ex NY Fed President Dudley with an opinion piece on Bloomberg "The Fed Should Go Big Now and I Think it Will".

Fed Fund futures are currently priced around 41bps, suggesting a 65% chance of a 50bps cut. The Fed doesn't like to surprise the market on the day of FOMC meetings so the more the market has priced in, the greater the chance of a larger cut.

Newsflow has been light but the market ignored a positive print of the Empire manufacturing survey which measures activity in New York. The small-sampled survey can be volatile and the headline index rose over 16pts to 11.5, its highest level in nearly three years and much stronger than expected.

Rising bets on a front-loaded easing cycle have pushed down US Treasury yields across the curve, with 2 and 10-year rate down 3bps to 3.56% and 3.62% respectively.

Lower rates continue to support US equities, with the S&P500 flat, but weighed down by 2-3% falls in Apple and

Nvidia. A respected analyst said the first weekend of preorders for the iPhone 16 was about 13% below last year's equivalent figures, due to weak demand for the Pro model. Most US stocks are higher, with the equally weighted index up modestly and returning back near its record high.

Lower US rates have weighed on the USD, with the DXY index down 0.4% and probing recent lows near 100.5. USD/JPY fell as much as 0.9% to a low below 139.60, before returning to a 140 handle and is currently down only 0.2% at 140.60.

The NZD is up 0.5% from last week's close to 0.6190 after meeting some resistance half a tick below 0.62. The AUD shows a similar rise to 0.6740. GBP has been the best of the European currencies, up 0.6% to return to a 1.32 handle. NZD/GBP is a touch weaker at 0.4690 while NZD/EUR is modestly stronger at 0.5565. NZD/JPY fell to as low as 86.3 and is now back near 87.

Domestic rates continue to follow the lead of the US, with the market pricing in a rising chance of chunkier 50bps rate cuts and lower rates across the curve. The market prices in 41bps of cuts for the October meeting, suggesting more chance of 50bps than 25bps and over 130bps priced over the three meetings through to February, consistent with at least two 50bps cuts and some chance of all three meetings at that threshold. This looks overly aggressive to us.

NZGB and swap rates fell to fresh cycle lows and curves steepened, as lower rates were led by the short end. The 2-year swap rate fell 5bps to 3.60% and the 10-year rate fell 1bp to 3.76%. The 10-year NZGB yield fell 3bps to 4.07%. NZ's performance of services index rose marginally to 45.5 in August but remained deep in contractionary territory.

In the day ahead the economic calendar picks up a gear, with US retail sales and Canadian CPI data being the top tier releases tonight.

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Coming Up

	Period	Cons.	Prev.	NZT
GE ZEW survey expectations	Sep	17.0	19.2	21:00
US Retail sales (mm%)	Aug	-0.2	1.0	00:30
US Retail sales ex auto, gas (m/m%)	Aug	0.3	0.4	00:30
CA CPI (y/y%)	Aug	2.1	2.5	00:30
CA CPI core (avg. median, trim y/y%)	Aug	2.35	2.55	00:30
US Industrial production (m/m%)	Aug	0.2	-0.6	01:15
US NAHB housing market index	Sep	40	39	02:00

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	% Year		Last	Net Day				
NZD	0.6186	+0.5	0.6175	0.6199	CHF	0.8455	-0.4		S&P 500	5,630	+0.1	26.5	Oil (Brent)	72.73	+1.6
AUD	0.6742	+0.6	0.6720	0.6749	SEK	10.199	-0.3		Dow	41,597	+0.5	20.2	Oil (WTI)	70.14	+2.2
EUR	1.1120	+0.4	1.1110	1.1138	NOK	10.615	-0.4		Nasdaq	17,565	-0.7	28.1	Gold	2585.5	-0.1
GBP	1.3203	+0.6	1.3159	1.3214	HKD	7.794	-0.1		Stoxx 50	4,828	-0.3	12.4	HRC steel	698.0	+0.0
JPY	140.66	-0.1	139.58	140.91	CNY	7.097	-0.3		FTSE	8,278	+0.1	7.4	CRB	273.8	+0.0
CAD	1.3594	+0.1			SGD	1.296	-0.1		DAX	18,633	-0.4	17.2	Wheat Chic.	597.3	-2.5
NZD/AUD	0.9175	-0.1			IDR	15,402	-0.2		CAC 40	7,449	-0.2	1.0	Sugar	19.18	+0.9
NZD/EUR	0.5563	+0.1			THB	33.30	+0.1		Nikkei	36,582	-0.7	9.1	Cotton	71.75	+1.8
NZD/GBP	0.4685	-0.1			KRW	1,320	-0.8		Shanghai	2,704	-0.5	-13.3	Coffee	258.6	-0.3
NZD/JPY	87.01	+0.4			TWD	31.88	-0.4		ASX 200	8,122	+0.3	11.6	WM powder	3420	-0.9
NZD/CAD	0.8409	+0.5			PHP	55.87	-0.2		NZX 50	12,704	-1.0	12.0	Australian Futures		
NZ TWI	70.82	+0.3						VIX Index	16.98	+2.5	+23.1	3 year bond	96.69	0.02	
Interest Rates												10 year bond	96.19	0.01	
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	5.20	3.35	3.16	USD	3.62	-0.03	15-May-26	3.82	-0.05	BKBM 1-mth	5.29	-0.03		
AUD	4.35	4.42	3.54	3.90	AUD	3.81	-0.00	15-Apr-27	3.61	-0.05	BKBM 3-mth	5.07	-0.03		
NZD	5.25	5.07	3.60	3.76	NZD	4.07	-0.03	15-May-28	3.59	-0.05	1 year	4.19	-0.06		
EUR	3.75	3.47	2.43	2.37	GER	2.12	-0.03	20-Apr-29	3.65	-0.04	2 year	3.60	-0.05		
GBP	5.00	5.30	3.73	3.41	GBP	3.76	-0.01	15-May-30	3.75	-0.04	3 year	3.45	-0.05		
JPY	0.23	-0.03	0.45	0.88	JPY	0.85	0.00	15-May-31	3.86	-0.04	5 year	3.47	-0.03		
CAD	4.25	4.97	2.82	2.76	CAD	2.87	-0.04	15-May-32	3.96	-0.03	7 year	3.59	-0.02		
						NZ Inflation-Indexed Bonds						10 year	3.76	-0.01	
						Sep-30	2.07	-0.02	15-May-35	4.14	-0.03	15 year	3.96	-0.00	
						Sep-35	2.39	-0.02	15-May-36	4.23	-0.02				
						Sep-40	2.63	-0.02	15-May-37	4.33	-0.01				
									15-May-41	4.51	-0.02				
									15-May-51	4.59	-0.01				
									15-May-54	4.62	-0.01				

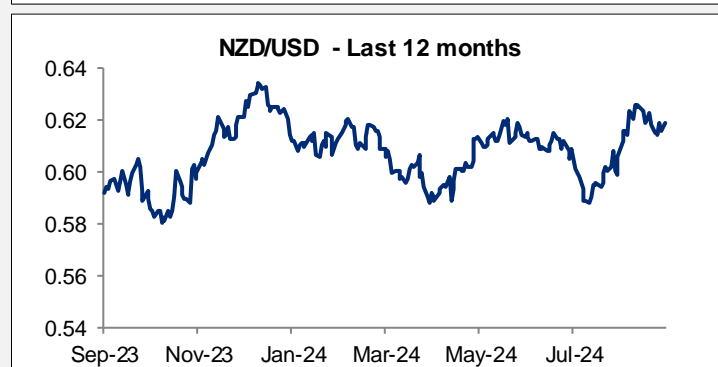
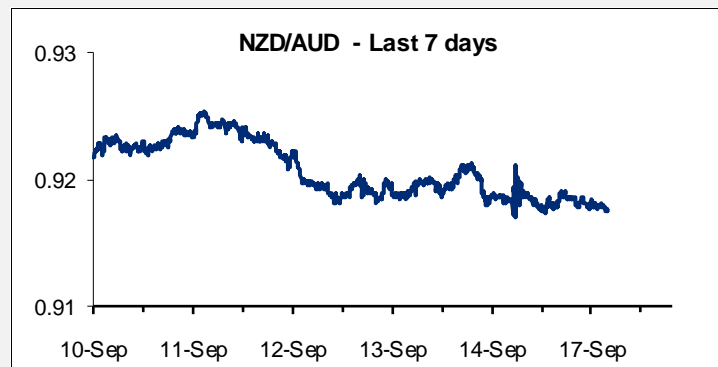
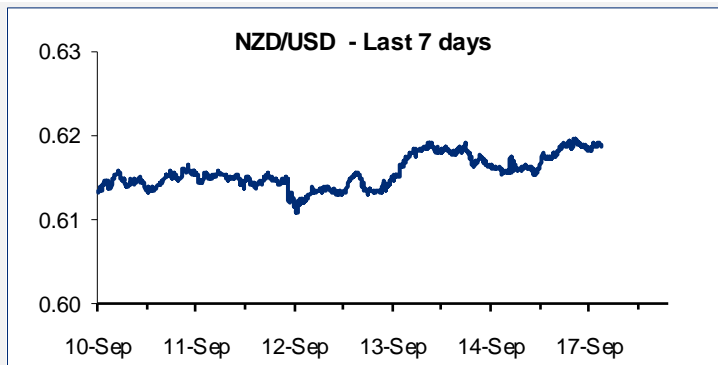
* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer

Rates are as of: NZT 06:54

Source: Bloomberg

NZD exchange rates

17/09/2024	6:55 am	Prev. NY close
USD	0.6186	0.6157
GBP	0.4685	0.4691
AUD	0.9175	0.9184
EUR	0.5563	0.5559
JPY	87.01	86.72
CAD	0.8409	0.8364
CHF	0.5230	0.5226
DKK	4.1527	4.1483
FJD	1.3713	1.3722
HKD	4.8244	4.8022
INR	51.92	51.66
NOK	6.5677	6.5642
PKR	172.34	171.63
PHP	34.59	34.47
PGK	2.4180	2.4041
SEK	6.3105	6.3005
SGD	0.8022	0.7989
CNY	4.3932	4.3822
THB	20.57	20.52
TOP	1.4246	1.4187
VUV	73.64	73.42
WST	1.6722	1.6634
XPF	66.72	66.51
ZAR	10.9094	10.9103



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	0.10	0.40
3 Months	1.68	2.16
6 Months	-0.91	0.09
9 Months	-4.77	-2.78
1 Year	-7.64	-4.64

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-4.84	-4.23
3 Months	-9.55	-8.32
6 Months	-11.23	-8.86
9 Months	-8.36	-3.80
1 Year	-3.32	3.86

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