

Research Markets Today

18 December 2024

Events Round-Up

AU: Westpac consumer conf, Dec: 92.8 vs. 94.6 prev.
 UK: Unemployment rate (%), Oct: 4.3 vs. 4.3 exp.
 UK: Wkly earnings x bonus (3m y/y%), Oct: 5.2 vs. 5.0 exp.
 GE: IFO expectations, Dec: 84.4 vs. 87.5 exp.
 CA: CPI (y/y%), Nov: 1.9 vs. 2.0 exp.
 CA: CPI core (avg med/trim y/y%), Nov: 2.65 vs. 2.5 exp.
 US: Retail sales (m/m%), Nov: 0.7 vs. 0.6 exp.
 US: Retail sales ex auto, gas (m/m%), Nov: 0.2 vs. 0.4 exp.
 US: Retail sales control group (m/m%), Nov: 0.4 vs. 0.4 exp.
 US: Industrial production (m/m%), Nov: -0.1 vs. 0.3 exp.
 US: NAHB housing market index, Dec: 46 vs. 47 exp.

Good Morning

US equities are on the back foot, just over 24 hours ahead of the Fed's policy announcement. The S&P500 is currently down 0.3%. Bank of America's latest Global Fund Manager survey provides a warning sign for equities, with the cash weighting falling to just 3.9% in December and the equities indicator surging to a record high of a net 36% overweight, triggering a "sell" signal.

The US 10-year Treasury yield pushed up to as high as 4.44% ahead of the US retail sales release. The report wasn't as strong as feared and the yield has since steadily fallen, currently 4.38%, down slightly on the day and relative to the NZ close. The 2-year rate has followed a similar path.

US retail sales were close to market expectations, with a 0.7% m/m increase in the headline index for November boosted by car purchases, likely supported by replacement vehicles post hurricanes. The ex-autos and gas measure rose a more modest 0.2% while the control group, which feeds into GDP figures, rose 0.4%. Even if the latter are flat in December, they'd be running at an annualised pace of 4% in the Q4, consistent with another quarter of strong consumer spending.

US industrial production fell 0.1% m/m and manufacturing production rose by just 0.2% with downside revisions, consistent with ongoing recession-like conditions in the sector, as suggested by PMI data.

Annual headline Canadian CPI inflation nudged down to 1.9% y/y in November, one-tenth below consensus, but core inflation was stronger than expected. The Bank of Canada's preferred measure, averaging the median and trimmed mean estimates, was steady at 2.65% from the upwardly revised October figure, with the three-month annualised pace lifting to 3.3%. There was little reaction, with the market still seeing the Bank of Canada stepping down the pace of easing next year, with a 70% chance of a 25bps cut in late-January and little more than two full rate cuts priced for 2025.

More market reaction was evident following UK labour market data. UK wage inflation picked up in the three-months ending October, with the figure excluding bonuses lifting to a higher than expected 5.2% y/y, with private sector wages lifting from 4.9% to 5.4%. Adding in the likelihood that CPI inflation picked up in November, in data due tonight, the market pared the scope for the BoE to cut rates next year, with not much more than two full rate cuts now priced. UK gilt yields are up 8-10bps, led by the short end, against a backdrop of lower bond yields across Europe and the US.

The UK-Germany 10-year spread is at 229bps, the highest on a closing basis since German reunification in 1990, reflecting the differing easing paths for the ECB and the BoE – a more aggressive monetary policy easing cycle for the former than the latter. Germany's IFO survey showed the business climate index falling to a 4½ year low of 84.7, underlying weak economic conditions, and with the expectations component at a 10-month low of 84.4.

In currency markets, GBP was one of the better performing currencies overnight, lifting back above 1.27, supported by the labour market data. EUR nudged back down to 1.05. EUR/GBP is trading above the low seen last week of 0.8225 but is probing a level not seen since early 2022.

Commodity currencies have underperformed. The CAD has fallen to a 4½ year low, with USD/CAD up through 1.43, in the aftermath of the resignation of Finance Minister Freeland, raising doubts over PM Trudeau's future. The NZD fell to a fresh two-year low of 0.5752. The AUD fell to its lowest level in more than a year of 0.6332, performing slightly worse than the NZD overnight, with NZD/AUD nudging up to 0.9085. Pessimism around China's outlook remains rife and a key driver of weaker Asia-Pacific currencies. The Asia Dollar index is also probing fresh two-

year lows, even with the PBoC managing to contain the yuan.

The yen has been the best performing of the majors, with USD/JPY down 0.5% for the day to 153.30. NZD/JPY is down close to 1% at 88.3 while NZD/GBP is probing a fresh eight-year low below 0.4530.

The overnight GDT dairy auction was softer, as forewarned by the futures market, with the price index down 2.8%, breaking a run of stronger pricing. Both skim milk and whole milk powder fell 2.9%. Further falls would challenge a \$10 milk price for the season. Yesterday the futures market closed at \$9.95.

In domestic news yesterday, the government’s economic and fiscal update made for sobering reading, with a downgrading of the economic outlook resulting in a significant downgrading of the fiscal accounts. This is best summarised by the government needing to borrow an extra \$20b over the next four years. Upwardly revised deficits are becoming a habit of the government, past and present, resulting in a steady upward trajectory of government debt levels.

The market was braced for some deterioration in the fiscal outlook, but the projected debt levels exceeded all estimates, driving up NZGB yields before reversing. The 2034 bond was up as much as 4bps to 4.49%, before

closing up 1bp at 4.46%, with some modest curve steepening evident. NZGBs underperformed the swap market, with yields down 2-4bps across the swap curve. Reflecting excessive supply of bonds, swap spreads are at record wides, around minus 45bps for the 2034 bond, with 10-year swap at 4.01%.

In the day ahead, NZ consumer confidence and current account data are released this morning. UK CPI data will be released tonight, where the consensus expects a lift in annual inflation across the key measures. The Fed announcement is at 8am tomorrow morning.

jason.k.wong@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
NZ	Westpac consumer confidence	Q4	90.8	90.9	09:00
NZ	Current a/c balance (ann %GDP)	Q3	-6.6	-6.7	10:45
UK	CPI (y/y%)	Nov	2.6	2.3	20:00
UK	CPI Core (y/y%)	Nov	3.6	3.3	20:00
UK	CPI services (y/y%)	Nov	5.1	5	20:00
US	Building permits (k)	Nov	1430	1416	02:30
US	Housing starts (k)	Nov	1344	1311	02:30
US	Fed Funds rate (upper bd %)		4.5	4.75	08:00

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	% Year		Last	Net Day				
NZD	0.5760	-0.4	0.5752	0.5770	CHF	0.8921	-0.3		S&P 500	6,055	-0.3	28.3	Oil (Brent)	73.06	-1.2
AUD	0.6341	-0.5	0.6333	0.6357	SEK	10.943	+0.5		Dow	43,441	-0.6	16.4	Oil (WTI)	69.88	-1.2
EUR	1.0498	-0.1	1.0479	1.0516	NOK	11.196	+0.4		Nasdaq	20,128	-0.2	35.9	Gold	2638.8	-0.5
GBP	1.2718	+0.3	1.2666	1.2729	HKD	7.769	-0.1		Stoxx 50	4,943	-0.1	8.6	HRC steel	675.0	+0.0
JPY	153.32	-0.5	153.25	154.17	CNY	7.284	+0.0		FTSE	8,195	-0.8	8.2	CRB	293.2	-0.3
CAD	1.4312	+0.5			SGD	1.349	-0.1		DAX	20,246	-0.3	20.9	Wheat Chic.	554.3	-1.2
NZD/AUD	0.9084	+0.1			IDR	16,101	+0.6		CAC 40	7,366	+0.1	-3.0	Sugar	19.83	-4.1
NZD/EUR	0.5487	-0.2			THB	34.17	+0.3		Nikkei	39,365	-0.2	20.2	Cotton	68.73	-0.5
NZD/GBP	0.4529	-0.7			KRW	1,436	-0.1		Shanghai	3,361	-0.7	14.7	Coffee	327.7	+0.1
NZD/JPY	88.31	-0.9			TWD	32.50	+0.0		ASX 200	8,314	+0.8	12.0	WM powder	3815	-1.7
NZD/CAD	0.8244	+0.1			PHP	58.89	+0.4		NZX 50	12,914	+0.9	11.7	Australian Futures		
NZ TWI	68.63	-0.3						VIX Index	15.07	+2.6	+22.7	3 year bond	96.19	0.03	
Interest Rates										10 year bond 95.68 0.04					
Rates		Swap Yields		Benchmark 10 Yr Bonds		NZ Government Bonds		NZ BKBM and Swap Yields							
	Cash	3Mth	2 Yr	10 Yr	USD	Last	Net Day		Last	Chg		Last	Chg		
USD	4.75	4.85	4.05	3.90	USD	4.38	-0.01	15-Apr-27	3.76	-0.00	BKBM 1-mth	4.37	-0.01		
AUD	4.35	4.47	3.87	4.31	AUD	4.30	-0.02	15-May-28	3.83	-0.00	BKBM 3-mth	4.26	-0.01		
NZD	4.25	4.26	3.58	4.01	NZD	4.46	0.01	20-Apr-29	3.93	-0.00	1 year	3.73	-0.03		
EUR	3.25	2.86	2.20	2.23	GER	2.23	-0.02	15-May-30	4.06	-0.00	2 year	3.58	-0.02		
GBP	4.75	5.30	4.32	4.03	GBP	4.52	0.08	15-May-31	4.21	0.00	3 year	3.56	-0.03		
JPY	0.23	-0.03	0.63	1.04	JPY	1.08	0.01	15-May-32	4.32	0.00	5 year	3.67	-0.04		
CAD	3.25	4.97	2.83	2.90	CAD	3.15	-0.03	14-Apr-33	4.39	0.01	7 year	3.83	-0.03		
						NZ Inflation-Indexed Bonds		15-May-34	4.46	0.01	10 year	4.01	-0.03		
						Sep-30	2.36	0.04	15-May-35	4.55	0.02	15 year	4.22	-0.02	
						Sep-35	2.69	0.04	15-May-36	4.63	0.01				
						Sep-40	2.94	0.04	15-May-37	4.72	0.02				
									15-May-41	4.93	0.02				
									15-May-51	5.07	0.02				
									15-May-54	5.10	0.02				

* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer
Rates are as of: NZT 07:04

Source: Bloomberg

NZD exchange rates

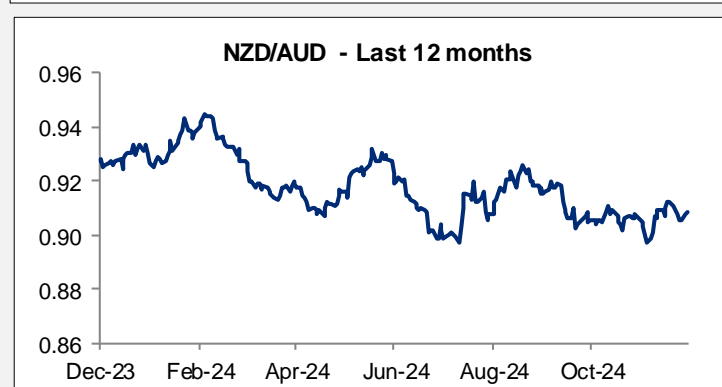
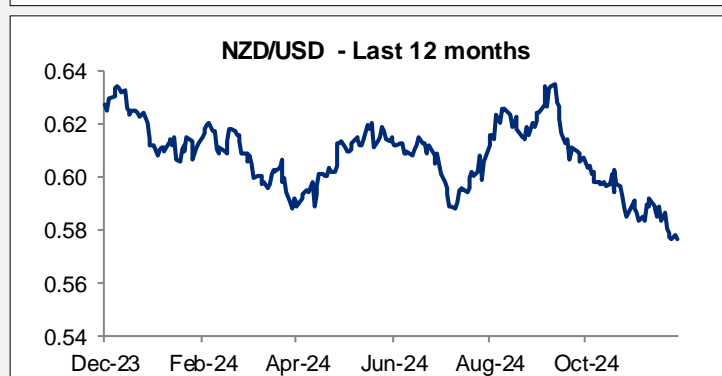
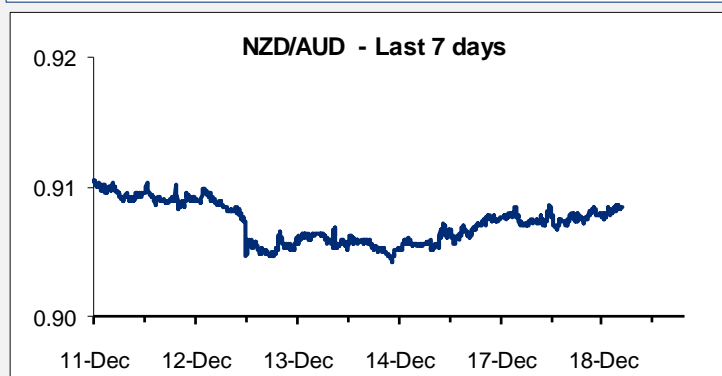
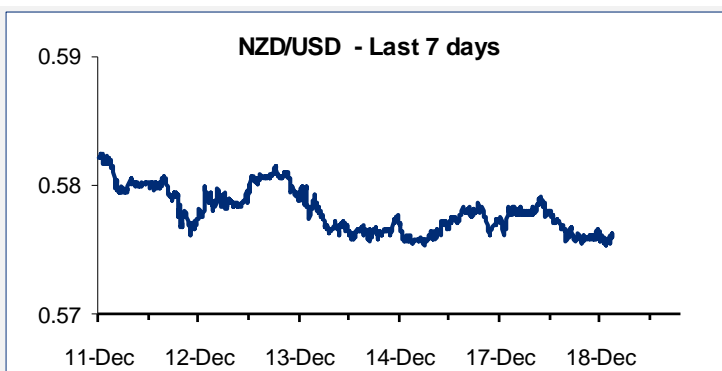
18/12/2024	7:04 am	Prev. NY close
USD	0.5760	0.5782
GBP	0.4529	0.4559
AUD	0.9084	0.9075
EUR	0.5487	0.5500
JPY	88.31	89.13
CAD	0.8244	0.8235
CHF	0.5138	0.5171
DKK	4.0927	4.1030
FJD	1.3306	1.3403
HKD	4.4751	4.4950
INR	48.90	49.07
NOK	6.4488	6.4501
PKR	160.29	160.80
PHP	33.92	33.93
PGK	2.2976	2.3054
SEK	6.3031	6.2946
SGD	0.7770	0.7805
CNY	4.1957	4.2116
THB	19.74	19.70
TOP	1.3750	1.3916
VUV	71.02	70.97
WST	1.5977	1.5973
XPF	65.47	65.67
ZAR	10.4220	10.3248

NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	1.37	1.69
3 Months	5.10	5.60
6 Months	15.67	16.77
9 Months	27.21	29.23
1 Year	38.85	41.85

NZD/AUD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	1.31	2.10
3 Months	6.19	7.64
6 Months	19.61	23.11
9 Months	33.81	39.47
1 Year	46.77	55.60



Contact Details

BNZ Research

Stephen Toplis
Head of Research

Doug Steel
Senior Economist

Jason Wong
Senior Markets Strategist

Stuart Ritson
Senior Interest Rate Strategist

Matt Brunt
Economist

Mike Jones
BNZ Chief Economist
+64 9-956 0795

Main Offices

Wellington
Level 4, Spark Central
42-52 Willis Street
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

Auckland
80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

Christchurch
111 Cashel Street
Christchurch 8011
New Zealand
Toll Free: 0800 854 854

This document has been produced by Bank of New Zealand (BNZ). BNZ is a registered bank in New Zealand and is only authorised to offer products and services to customers in New Zealand.

Analyst Disclaimer: The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed.

BNZ maintains an effective information barrier between the research analysts and its private side operations. Private side functions are physically segregated from the research analysts and have no control over their remuneration or budget. The research functions do not report directly or indirectly to any private side function. The Research analyst might have received help from the issuer subject in the research report.

New Zealand: The information in this publication is provided for general information purposes only, and is a summary based on selective information which may not be complete for your purposes. This publication does not constitute any advice or recommendation with respect to any matter discussed in it, and its contents should not be relied on or used as a basis for entering into any products described in it. Bank of New Zealand recommends recipients seek independent advice prior to acting in relation to any of the matters discussed in this publication.

Any statements as to past performance do not represent future performance, and no statements as to future matters are guaranteed to be accurate or reliable.

Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever which may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

USA: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.