

Research Markets Today

18 July 2024

Events Round-Up

NZ: CPI (y/y%), 2Q: 3.3 vs. 3.4 exp.
 NZ: CPI (q/q%), 2Q: 0.4 vs. 0.5 exp.
 NZ: CPI Non Tradeable (q/q%), 2Q: 0.9 vs. 0.8 exp.
 UK: CPI (y/y%), Jun: 2.0 vs. 1.9 exp.
 UK: CPI Core (y/y%), Jun: 3.5 vs. 3.4 exp.
 US: Building Permits, Jun: 1446 vs. 1400 exp.
 US: Housing Starts, Jun: 1353 vs. 1300 exp.
 US: Industrial Production (m/m%), Jun: 0.6 vs. 0.3 exp.

Good Morning

Technology stocks led declines in global equities amid concerns about tighter restrictions from the US government on advanced semiconductor exports to China. The Nasdaq is down almost 2.5% while the S&P has fallen 1.4% in early afternoon trade. Equities also closed lower across Europe. The US dollar fell against developed market currencies while global bond markets are little changed.

Influential Fed Governor Christopher Waller said the recent easing of price pressures, and signs that the labour market is cooling, had given him more confidence that inflation was coming under control. He outlined that while immediate rate cuts weren't required, he believes 'it is getting closer to the time when a cut in the policy rate is warranted'.

New York Fed President, John Williams echoed these comments playing down the prospect of a July rate cut but suggesting greater confidence in the disinflationary trend. Market pricing for the Fed was little changed with a 25bps cut priced for the September FOMC and close to 65bps of easing by December.

US Industrial production rose by 0.6% in June which was above consensus expectations for a 0.3% increase. A large jump in the volatile autos category offers a partial explanation, but even stripping out this impact, manufacturing was still up 0.3%. However, subdued manufacturing surveys point to weaker activity ahead.

US treasuries are little changed with an earlier drift higher in yield reversing as equity losses provided support for bonds. 10-year yields are back at the recent lows near

4.15%. The US\$13 billion 20-year treasury auction attracted decent demand from investors.

UK CPI was slightly higher than expected. Headline inflation held steady at a 2.0% annual rate compared with expectations of a dip to 1.9%. Core inflation was also 0.1% above consensus at 3.5%. The market reduced the probability of a 25bps cut by the Bank of England at its August meeting to around 35%.

The US dollar is weaker against the majority of G10 currencies. The dollar index fell below support at 104 to reach the lowest level since March. The main catalyst appears to have been comments from Trump indicating concern about the strong dollar and particularly relative to the yen and yuan. The yen and Swiss franc have outperformed amid the softer risk tone.

The Australasian currencies are little changed in offshore trade despite the weaker dollar. The NZD/USD move higher stalled ahead of 0.6100 and has subsequently faded. The NZD is softer on the major cross rates. NZD/JPY is back at 95 having traded above 99 a week ago. NZD/AUD was stable and oscillated in a narrow range around 0.9020.

NZ Q2 headline annual CPI declined to 3.3% from 4% in Q1. This was marginally below the consensus estimate of 3.4% and compared favourably with the RBNZ's 3.6% forecast at the May Monetary Policy Statement. However, the non-tradables component retraced less than expected and increased at a 5.4% annual rate. Measures of core inflation, including the RBNZ's sectoral factor model, have continued to ease towards the mid-3s.

There was considerable market focus on the CPI figures following the change of tone from the RBNZ at the Monetary Policy Review last week. The market was looking for confirmation, or otherwise, of the easing priced for the RBNZ. In any case the data didn't provide a conclusive outcome. Pricing for the August meeting dipped a couple of bps but is still indicates slightly less than a 50% chance of a 25bps rate cut.

NZ fixed income moved higher in yield in the local session yesterday as the market digested the CPI data. The small upside surprise, relative to consensus on non-tradables, contributed to the move but yields closed below the session highs. 2-year swap rates ended 3bps higher at 4.41% in a parallel curve shift. 10-year government yields

closed 2bps higher at 4.39%, close to 4bps above the intra-day yield lows. Australian 10-year bond futures are little changed overnight, suggesting limited directional bias for NZGB yields on the open.

New Zealand Debt Management (NZDM) is offering NZ\$500 million of nominal NZGBs today split across Apr-29 (\$225m), May-34 (\$225m) and Apr-37 (\$50m) in the weekly tender. Cover ratios exceeded three times for each of the lines last week and NZDM have opted to offer the same lines and volumes.

There is no domestic data today. The regional focus will centre on June Australian labour market data. The consensus looks for a 0.1% uptick in the unemployment rate to 4.1% and a 20k increase in employment. UK labour market data will be watched to finetune expectations for the August Bank of England meeting.

The European Central Bank (ECB) is unanimously expected to leave rates on hold by economists which aligns with market pricing. US Initial jobless claims, which are likely distorted by the timing of auto plant shutdowns and the

impact of Hurricane Beryl, and the Philly Fed manufacturing survey are released in the US.

stuart.ritson@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
AU	Employment Change	Jun	20	39.7	13:30
AU	Unemployment Rate	Jun	4.1	4	13:30
UK	ILO Unemployment Rate 3Mths	May	4.4	4.4	18:00
UK	Wkly earnings ex bonus (3m/y%)	May	5.7	6	18:00
EC	ECB Deposit Facility Rate	Jul	3.75	3.75	00:15
US	Initial Jobless Claims	13 Jul	230	222	00:30
US	Philadelphia Fed Business Outlook	Jul	2.9	1.3	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	0.6076	+0.4	0.6066	0.6097	CHF	0.8840	-1.1	5,598	-1.2	23.8	Oil (Brent)	85.09	+1.6	
AUD	0.6726	-0.1	0.6721	0.6755	SEK	10.549	-0.4	41,196	+0.6	19.1	Oil (WTI)	82.84	+2.6	
EUR	1.0937	+0.4	1.0895	1.0948	NOK	10.732	-0.6	18,032	-2.6	26.6	Gold	2460.6	-0.3	
GBP	1.3008	+0.3	1.2984	1.3044	HKD	7.807	-0.0	4,891	-1.1	12.3	HRC steel	660.0	+0.0	
JPY	156.26	-1.3	156.10	157.83	CNY	7.262	-0.1	8,187	+0.3	10.5	CRB	285.8	-0.9	
CAD	1.3691	+0.1			SGD	1.341	-0.3	18,437	-0.4	14.7	Wheat Chic.	565.5	+1.8	
NZD/AUD	0.9034	+0.5			IDR	16,100	-0.5	CAC 40	7,571	-0.1	3.8	Sugar	19.36	-1.3
NZD/EUR	0.5555	+0.1			THB	35.94	-0.2	Nikkei	41,098	-0.4	26.5	Cotton	71.12	+1.3
NZD/GBP	0.4671	+0.2			KRW	1,381	-0.3	Shanghai	2,963	-0.5	-7.3	Coffee	243.2	+0.2
NZD/JPY	94.94	-0.9			TWD	32.59	-0.0	ASX 200	8,058	+0.7	10.6	WM powder	2990	+0.5
NZD/CAD	0.8319	+0.6			PHP	58.31	-0.2	NZX 50	12,292	+0.9	3.0	Australian Futures		
NZ TWI	71.28	+0.3						VIX Index	14.48	+9.8	+7.4	3 year bond	96.07	0.00
												10 year bond	95.78	-0.02
Interest Rates						NZ Government Bonds				NZ BKBM and Swap Yields				
Rates		Swap Yields		Benchmark 10 Yr Bonds		Last		Chg		Last		Chg		
	Cash	3Mth	2 Yr	10 Yr	USD	Last	Net Day	15-May-26	4.45	0.04	BKBM 1-mth	5.60	-0.01	
USD	5.50	5.54	4.26	3.72	USD	4.15	-0.01	15-Apr-27	4.23	0.03	BKBM 3-mth	5.53	-0.02	
AUD	4.35	4.45	4.15	4.34	AUD	4.25	0.00	15-May-28	4.13	0.03	1 year	4.96	-0.00	
NZD	5.50	5.53	4.41	4.16	NZD	4.39	0.02	20-Apr-29	4.11	0.02	2 year	4.41	0.03	
EUR	3.75	3.67	3.05	2.69	GER	2.42	-0.01	15-May-30	4.17	0.02	3 year	4.14	0.03	
GBP	5.25	5.30	4.39	3.77	GBP	4.08	0.03	15-May-31	4.23	0.02	5 year	4.01	0.03	
JPY	0.08	-0.03	0.40	1.00	JPY	1.04	0.01	15-May-32	4.31	0.02	7 year	4.05	0.03	
CAD	4.75	4.97	#N/A	N/A	CAD	3.34	-0.02	14-Apr-33	4.36	0.02	10 year	4.16	0.02	
								15-May-34	4.39	0.02	15 year	4.30	0.02	
								15-May-35	4.44	0.02				
								15-May-37	4.56	0.02				
								15-May-41	4.72	0.02				
								15-May-51	4.76	0.02				
								15-May-54	4.78	0.02				

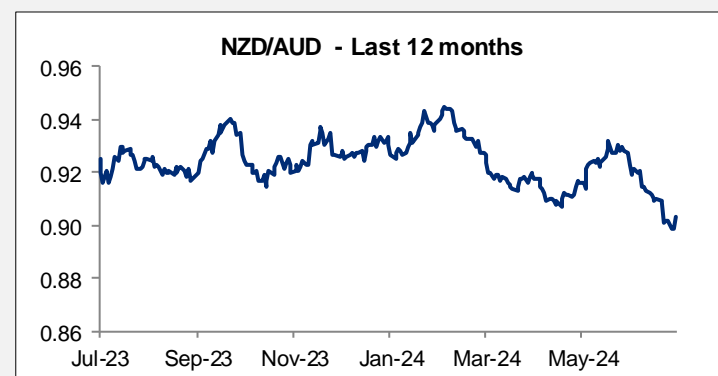
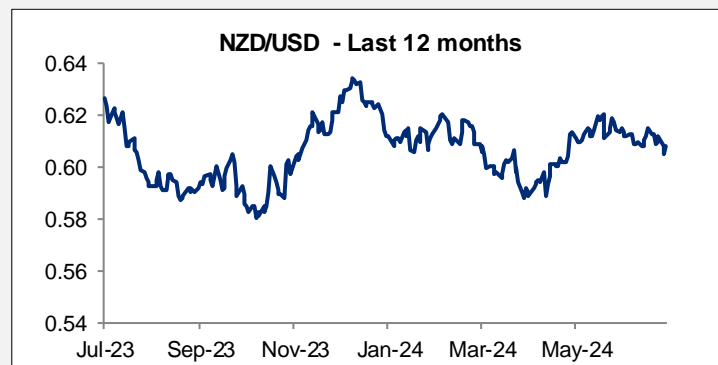
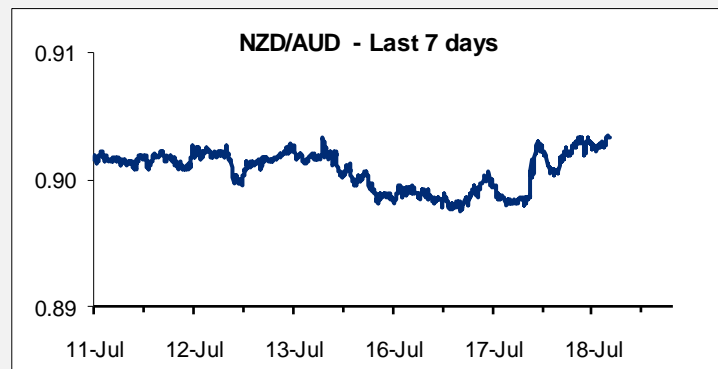
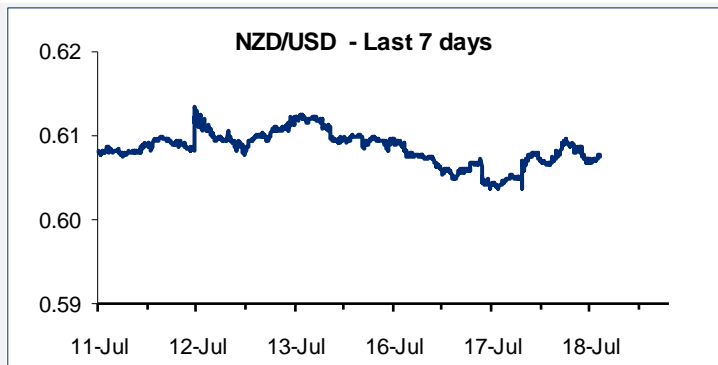
* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer

Rates are as of: NZT 06:40

Source: Bloomberg

NZD exchange rates

18/07/2024	6:40 am	Prev. NY close
USD	0.6076	0.6050
GBP	0.4671	0.4663
AUD	0.9034	0.8984
EUR	0.5555	0.5551
JPY	94.94	95.80
CAD	0.8319	0.8272
CHF	0.5371	0.5407
DKK	4.1440	4.1401
FJD	1.3639	1.3651
HKD	4.7436	4.7238
INR	50.79	50.58
NOK	6.5209	6.5325
PKR	169.19	168.49
PHP	35.43	35.33
PGK	2.3441	2.3332
SEK	6.4093	6.4103
SGD	0.8145	0.8132
CNY	4.4125	4.3974
THB	21.80	21.84
TOP	1.4019	1.3947
VUV	72.87	72.50
WST	1.6477	1.6441
XPF	66.44	66.27
ZAR	11.0539	10.9265



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.18	0.12
3 Months	-0.25	0.20
6 Months	0.13	1.13
9 Months	0.36	2.36
1 Year	0.20	3.20

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-7.89	-7.20
3 Months	-21.12	-20.03
6 Months	-33.25	-30.74
9 Months	-37.33	-32.35
1 Year	-36.95	-29.47

Contact Details

BNZ Research

Stephen Toplis

Head of Research
+64 4 474 6905

Doug Steel

Senior Economist
+64 4 474 6923

Jason Wong

Senior Markets Strategist
+64 4 924 7652

Stuart Ritson

Senior Interest Rate Strategist
+64 9 9248601

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.