

Research Markets Today

18 October 2024

Events Round-Up

AU: Employment change (k), Sep: 64 vs. 25 exp.
 AU: Unemployment rate (%), Sep: 4.1 vs. 4.2 exp.
 EC: ECB deposit facility rate (%), Sep: 3.25 vs. 3.25 exp.
 US: Retail sales (m/m%), Sep: 0.4 vs. 0.3 exp.
 US: Retail sales ex auto, gas (m/m%), Sep: 0.7 vs. 0.3 exp.
 US: Retail sales control group (m/m%), Sep: 0.7 vs. 0.3 exp.
 US: Philly Fed business outlook, Oct: 10.3 vs. 3.0 exp.
 US: Initial jobless claims, wk to 1-Oct: 241 vs. 259 exp.
 US: Industrial production (m/m%), Sep: -0.3 vs. -0.2 exp.
 US: NAHB housing market index, Oct: 43 vs. 42 exp.

Good Morning

Stronger than expected US retail sales data saw the market pare the scope for easier Fed policy and drove higher US Treasury yields. The ECB cut rates and the market added to bets that the ECB would step up the pace of easing going forward against the backdrop of lower inflation and downside risks to growth. Currency moves have been modest but JPY and EUR underperformed. The AUD was supported after a strong labour market report and the NZD has range-traded around 0.6060.

US retail sales were stronger than expected across the board and with upward revisions, with the headline index up 0.4% m/m and the core figure and control group measures, the latter feeding into GDP, even stronger, up 0.7% m/m. Control-group sales rose at an annualised pace of 6.4% in Q3, suggesting a strong pick-up in spending, and contributing to the Atlanta Fed's GDPnow estimate rising to 3.4%. Against a backdrop of weaker income growth, that pace of spending is unsustainable, but it still raised a question mark over the pace of Fed easing ahead.

Second-tier data were mixed, with initial jobless claims unexpectedly falling 19k to 241k last week, although the data were distorted by the impact of two hurricanes and the Boeing strike. For the same reason, industrial production fell 0.3% m/m in September, alongside downward revisions. The Philly Fed business outlook and NHB housing market index were both slightly stronger than expected.

The market pared the scope of Fed easing, although not significantly so, with 23bps of cuts priced for the next

meeting and cumulatively 43bps priced through to the December meeting. US Treasury yields jumped higher, and the yield curve steepened, with the 2-year rate up 4bps to 3.98% and the 10-year rate up 8bps to 4.10%.

For US equities, the stronger growth backdrop more than compensated for higher rates, with the market advancing to a fresh intraday record high and the S&P500 index is currently up 0.4%. European equities were also stronger, with the Euro Stoxx 600 index closing up 0.8% and a 0.8% gain in Germany's DAX index took it to a fresh record high.

The ECB cut its policy rates for a third time this cycle, as widely telegraphed prior to the meeting, with a 25bps cut in the deposit rate to 3.25%. The Statement noted inflation is expected to rise in the coming months before declining to target in the course of next year, hinting of an earlier meeting of the target than previously thought. ECB President Lagarde noted that the economy was somewhat weaker than expected and growth risks remain tilted to the downside, adding that any hardening of trade barriers would add to the downside risk.

While she repeated the line that the ECB would take a meeting-by-meeting approach regarding the pace of easing, Bloomberg reported "ECB officials reckon another interest rate cut in December is highly likely, with inflation to settle at 2% faster than envisaged...a move at the final meeting of 2024 would also help protect the stuttering economy and ensure a soft landing".

Against a backdrop of higher US rates, European short end rates fell, while longer term rates rose by less, contributing to steeper curves, with Germany's 2-year rate down 2bps and 10-year rate up 2bps. The market moved to price in an increasing chance of the ECB stepping up with a 50bps cut in December.

Currency movements overnight have been modest, but the EUR underperformed, falling to a fresh 2½ month low just above 1.0810 and currently 1.0825. The higher global rate backdrop has seen JPY as the worst of the majors, with USD/JPY breaking up through 150.

The AUD has been the strongest of the majors over the past 24 hours, sustaining the move seen in the wake of the stronger than expected Australian labour market report. A strong 64k lift in employment and higher participation kept the unemployment rate steady at a downwardly revised 4.1%. This saw the market pare the extent of easing priced into the curve, lifting interest rates across the board and

NZD exchange rates

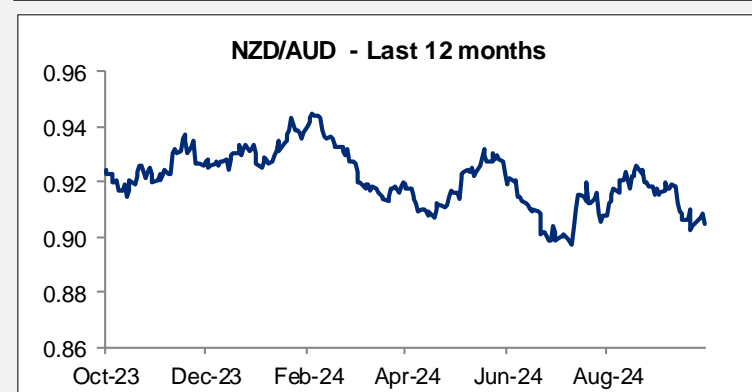
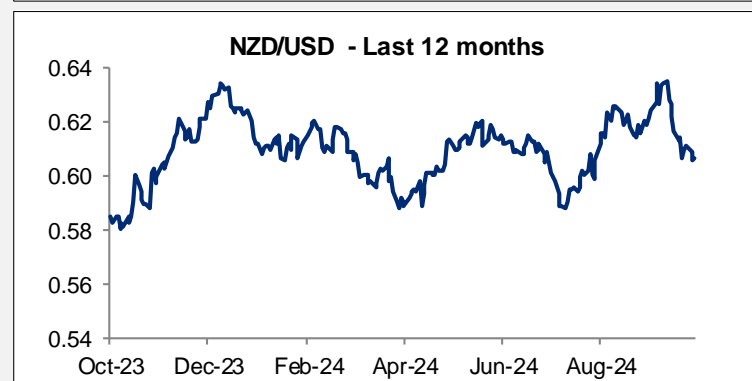
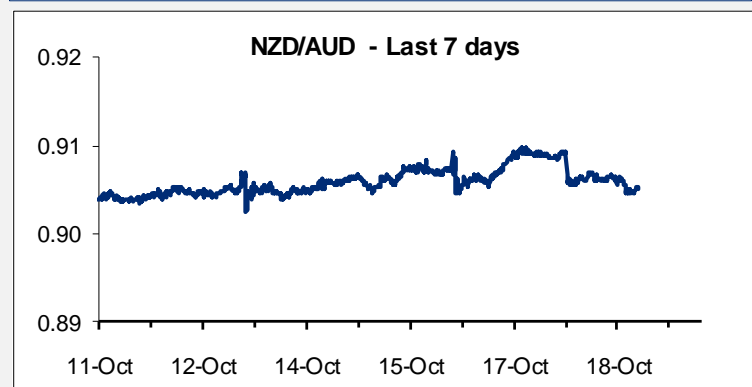
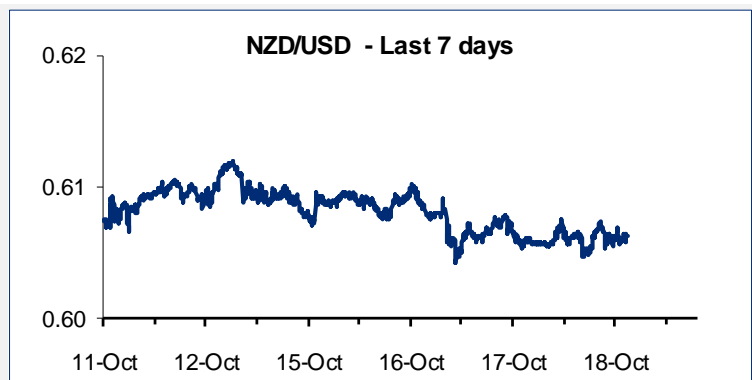
18/10/2024	7:01 am	Prev. NY close
USD	0.6063	0.6057
GBP	0.4660	0.4663
AUD	0.9051	0.9085
EUR	0.5600	0.5576
JPY	91.10	90.64
CAD	0.8362	0.8329
CHF	0.5251	0.5242
DKK	4.1769	4.1602
FJD	1.3549	1.3602
HKD	4.7133	4.7066
INR	50.97	50.88
NOK	6.6261	6.6122
PKR	168.37	168.64
PHP	35.06	34.98
PGK	2.3693	2.3762
SEK	6.3879	6.3614
SGD	0.7968	0.7955
CNY	4.3194	4.3123
THB	20.14	20.11
TOP	1.3951	1.4066
VUV	72.53	72.39
WST	1.6319	1.6303
XPF	66.62	66.43
ZAR	10.7276	10.6741

NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	0.85	1.17
3 Months	5.53	6.02
6 Months	12.53	13.53
9 Months	19.96	21.97
1 Year	26.49	29.48

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-2.41	-1.73
3 Months	0.06	1.20
6 Months	9.91	12.61
9 Months	25.21	30.48
1 Year	40.94	48.52



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

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