

Research Markets Today

19 June 2024

Events Round-Up

NZ: Westpac consumer confidence, Q2: 82.2 vs. 93.2 prev.

AU: RBA cash rate target, Jun: 4.35 vs. 4.35 exp.

GE: ZEW survey expectations, Jun: 47.5 vs. 50.0 exp.

US: Retail sales (m/m%), May: 0.1 vs. 0.3 exp.

US: Retail sales ex auto, gas (m/m%), May: 0.1 vs. 0.4 exp.

US: Industrial production (m/m%), May: 0.9 vs. 0.3 exp.

Good Morning

A weaker than expected US retail sales report supported US Treasuries, dragging the 10-year rate down to as low as 4.20% and pushed down the USD, reversing earlier strength. The AUD has outperformed after a more hawkish than expected RBA update. The NZD recovered to 0.6140 after a test of 0.61, while NZD/AUD is modestly weaker at 0.9230.

US retail sales for May were weaker than expected and came with downward revisions to March and April to boot, with a rise of just 0.1% for the headline and ex auto and gas measures. To highlight their recent weakness, retail sales have shown no growth since December, with sectors tied to the housing market particularly weak. Clearly, spending on consumer goods has been weak, which makes up the bulk of the retail sales sector and, while services spending has been relatively stronger, a slower growth in that is likely to follow against a backdrop of weaker income growth.

On a more positive note, US industrial production rose by a stronger than expected 0.9% m/m in May, although the data have been choppy and follows a couple of weak months.

US Treasury yields fell after the retail sales data were released and lower rates didn't get in a way of a 20-year bond auction, which met strong demand, with the \$13b of notes issued at a yield nearly 3bps below prevailing rates. US Treasury yields are down 4-6bps across the curve, with the 10-year rate currently at 4.23% after trading as low as 4.20%.

Updated estimates from the Congressional Budget Office saw the projected budget deficit for this year revised up 27% to \$1.92 trillion or 6.7% of GDP, up from last year's

6.3%. One day the bond market might take notice, but for now the poor fiscal backdrop isn't on the radar.

There has been a barrage of Fed speakers overnight, but they had little impact on the market. We won't report on all of the speakers but NY Fed President Williams said he sees the disinflationary process continuing with the timing of rate cuts determined by the incoming data. St Louis Fed President Musalem, a recent appointee, showed off his hawkish credentials, saying the conditions to emerge for a rate cut "could take months, and more likely quarters to play out" and he raised the possibility of additional rate hikes if progress on inflation stalls or reverses. Fed Governor Kugler, another fairly new member, appeared to have a view in line with Chair Powell, saying economic conditions are moving in the right direction and it will likely become appropriate to begin easing policy sometime later this year.

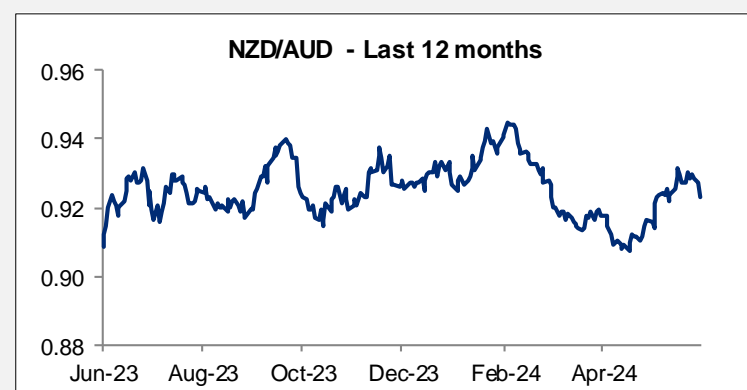
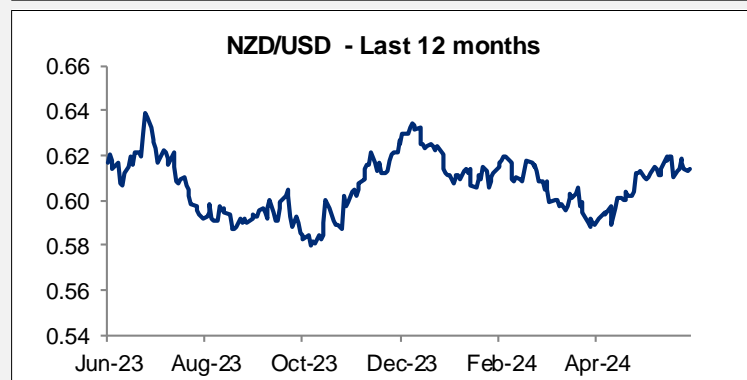
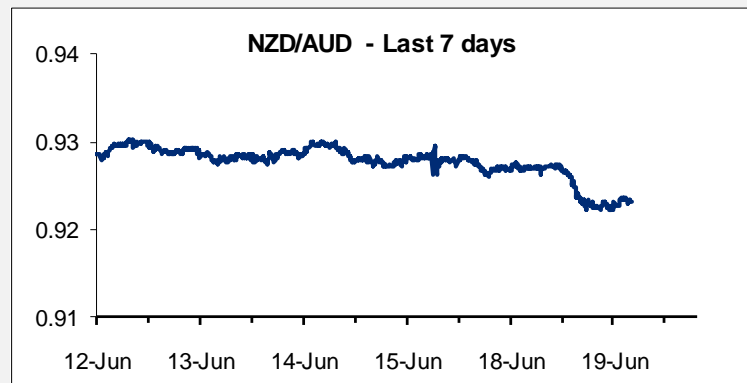
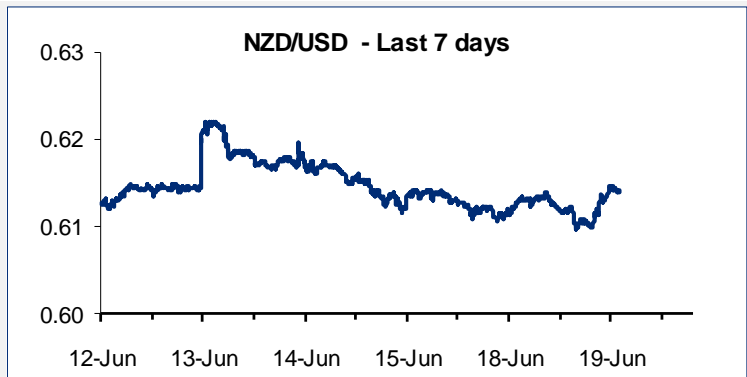
US equities ignored the soft retail sales report and the S&P500 is currently up 0.2%, on track for another record close. The index has been supported by a gain of nearly 4% for Nvidia, seeing it surpass Microsoft and Apple to become the most valuable listed US company. European markets continue to worry less about a potential change of government in France, with the Euro Stoxx 600 index closing up 0.7% and the France-Germany 10-year spread nudging down another couple of basis points.

In currency markets, the weaker US retail sales report saw prior USD strength unwind. Since the NZD close, there has been little net movement in EUR, GBP, CAD and JPY against the USD. The AUD has made further gains overnight, following the positive reaction to a more hawkish RBA (see below) and the NZD has piggy-backed for the ride. The AUD is up through 0.6650, while the NZD has recovered to 0.6140 after trading soft during NZ afternoon trading and weakening further after the local close, falling just below 0.61 before finding support.

The RBA left rates on hold but the tone of the statement and the press conference was seen as more hawkish than expected, with Governor Bullock saying that a rate hike was discussed while a rate cut was not and recent data "reinforced the need to remain vigilant to the upside risks to inflation". Australian rates pushed higher after the announcement, but lower US rates have since predominated and resulted in a reversal of that move. Since the NZ close, which came just before the RBA

NZD exchange rates

19/06/2024 6:56 am		Prev. NY close
USD	0.6143	0.6132
GBP	0.4835	0.4826
AUD	0.9231	0.9273
EUR	0.5721	0.5713
JPY	96.94	96.73
CAD	0.8428	0.8416
CHF	0.5430	0.5454
DKK	4.2677	4.2612
FJD	1.3857	1.3836
HKD	4.7957	4.7894
INR	51.24	51.24
NOK	6.5062	6.5363
PKR	170.96	169.34
PHP	36.01	35.97
PGK	2.3591	2.3539
SEK	6.4159	6.4269
SGD	0.8300	0.8290
CNY	4.4561	4.4494
THB	22.62	22.57
TOP	1.4174	1.4304
VUV	74.04	73.65
WST	1.6698	1.6649
XPF	67.96	68.03
ZAR	11.1033	11.1982



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.09	0.14
3 Months	-0.39	0.19
6 Months	-1.85	-0.85
9 Months	-5.29	-2.61
1 Year	-9.34	-6.34

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-8.57	-8.04
3 Months	-24.30	-23.01
6 Months	-45.46	-42.92
9 Months	-63.67	-57.59
1 Year	-77.44	-70.06

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