

# 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 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

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announcement, the Australian 10-year bond future is up 3bps in yield terms while the 3-year rate is little changed.

The GDT dairy auction price index fell 0.5%, but this follows a string of strong auctions. Whole milk power was a drag on the result, falling 2.5% while skim milk powder rose 0.7%. Fonterra's opening milk payout forecast for FY25 was conservative and this auction result pares some of the evident upside risk, albeit it is still very early days in the season.

The domestic rates market had an uneventful session, with NZGB yields little changed, albeit the ultra-long bond rose 2bps ahead of new supply later this week. Swap rates were little changed as well.

On the calendar today, focus turns to a speech by RBNZ Chief Economist Conway who will be talking about the inflation "road back to 2%". Despite best intentions not to reveal anything new since the MPS, there is always the chance of the market misconstruing his comments and causing a reaction. NZ current account data should show

ongoing progress in reducing the deficit, aided by the economic recession. UK CPI data are expected to show headline inflation back to 2%, supporting calls for easier monetary policy, although services CPI inflation is expected to drop to only 5.5%.

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### **Coming Up**

		Period	Cons.	Prev.	NZT
NZ	RBNZ Chief Economist Paul Co	nwaysp	eaks		09:00
NZ	Current account bal (% of GDP)	Q1	-6.8	-6.9	10:45
UK	CPI (y/y%)	May	2.0	2.3	18:00
UK	CPI core (y/y%)	May	3.5	3.9	18:00
US	NAHB housing market index	Jun	46	45	02:00

Source: Bloomberg, BNZ

Currenc	ies							Equities				Commoditie	s	
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	0.6143	+0.2	0.6097	0.6148	CHF	0.8839	-0.6	S&P 500	5,481	+0.1	24.3	Oil (Brent)	85.23	+1.2
AUD	0.6655	+0.6	0.6608	0.6658	SEK	10.444	-0.4	Dow	38,795	+0.0	13.1	Oil (WTI)	81.44	+1.4
EUR	1.0737	+0.0	1.0710	1.0761	NOK	10.591	-0.6	Nasdaq	17,858	-0.0	30.4	Gold	2330.4	+0.8
GBP	1.2705	+0.0	1.2669	1.2721	HKD	7.807	-0.0	Stoxx 50	4,915	+0.7	11.8	HRC steel	732.0	-0.4
JPY	157.81	+0.0	157.63	158.23	CNY	7.254	-0.0	FTSE	8,191	+0.6	7.2	CRB	293.1	-0.3
CAD	1.3719	-0.0			SGD	1.351	-0.1	DAX	18,132	+0.4	10.8	Wheat Chic.	597.8	-1.7
NZD/AUD	0.9231	-0.5			IDR	16,412	+0.9	CAC 40	7,629	+0.8	3.3	Sugar	18.92	-0.3
NZD/EUR	0.5721	+0.2			THB	36.66	-0.5	Nikkei	38,482	+1.0	15.3	Cotton	71.03	+1.4
NZD/GBP	0.4835	+0.2			KRW	1,381	+0.0	Shanghai	3,030	+0.5	-6.9	Coffee	226.3	-0.5
NZD/JPY	96.94	+0.2			TWD	32.41	+0.1	ASX 200	7,778	+1.0	6.6	WM powder	3250	-0.2
NZD/CAD	0.8428	+0.2			PHP	58.63	-0.0	NZX 50	11,767	+0.6	0.1	Australian Fu	itures	
NZ TW I	72.53	+0.0						VIX Index	12.53	-1.7	-7.5	3 year bond	96.19	-0.05
Interest	Rates							•				10 year bond	95.86	0.02
	Rates		Swap Yie	elds	Benchn	nark 10 Y	r Bonds	NZ Governm	nent Bonds	3		NZ BKBM and	d Swap Yi	elds
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day			Last	Chg		Last	Chg
USD	5.50	5.61	4.54	3.82	USD	4.22	-0.06	15-May-26		4.76	0.01	BKBM 1-mth	5.60	0.00
AUD	4.35	4.37	4.14	4.34	AUD	4.15	0.04	15-Apr-27		4.57	0.01	BKBM 3-mth	5.60	-0.01
NZD	5.50	5.60	4.93	4.41	NZD	4.59	0.00	15-May-28		4.47	0.00	1 year	5.39	-0.01
EUR	3.75	3.71	3.18	2.72	GER	2.40	-0.02	20-Apr-29		4.44	0.00	2 year	4.93	0.00
GBP	5.25	5.30	4.48	3.74	GBP	4.05	-0.07	15-May-30		4.45	0.00	3 year	4.64	0.00
JPY	0.08	-0.03	0.36	0.96	JPY	0.94	0.01	15-May-31		4.47	0.00	5 year	4.39	0.00
CAD	4.75	4.96	4.12	3.54	CAD	3.27	-0.04	15-May-32		4.53	0.00	7 year	4.36	0.00
								14-Apr-33		4.55	0.00	10 year	4.41	0.00
								15-May-34		4.59	0.00	15 year	4.54	0.00
					NZ Infla	tion-Inde	exed Bonds	15-May-35		4.65	0.00			
* These are indicative r 06:55 Sep-30 2.21 0.02			15-May-37		4.76	0.01								
please confirm rates with your BNZ dealer Sep-35 2.53 0.01			15-May-41		4.89	0.01								
Rates are as of: NZT Sep-40 2.72 0.02				15-May-51		4.90	0.02							
Source: Bloomberg				15-May-54		4.93	0.02							

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0.63

0.62

0.61

0.60

12-Jun

13-Jun

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						

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15-Jun

14-Jun

18-Jun

19-Jun

NZD/USD - Last 7 days

# **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/USD - Last 12 months
0.64
0.62 Why M
0.60 Warm No
0.58
0.56
0.54 Jun-23 Aug-23 Oct-23 Dec-23 Feb-24 Apr-24

# **NZD/AUD Forward points**

	BNZ buys NZD	<b>BNZ Sells NZD</b>
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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