

Research Markets Today

19 September 2024

Events Round-Up

NZ: Westpac Consumer Confidence, 3Q: 90.8 vs. 82.2 prev.

NZ: Current Account GDP Ratio YTD, 2Q: -6.7 vs. -6.5 exp.

UK: CPI (y/y%), Aug: 2.2 vs. 2.2 exp.

UK: CPI Core (y/y%), Aug: 3.6 vs. 3.6 exp.

UK: CPI Services (y/y%), Aug: 5.6 vs. 5.6 exp.

US: Building Permits, Aug: 1475 vs. 1412 exp.

US: Housing Starts, Aug: 1356 vs. 1318 exp.

US: FOMC Decision (Upper Bound), Sep: 5.0 vs. 5.25 exp.

Good Morning

Global asset markets were generally stable overnight ahead of the widely anticipated US Federal Reserve's (Fed) interest rate decision. The Fed began its easing cycle with a 50bps cut in the Fed Funds Rate. This was larger than the economists' estimates for a 25bps reduction, but market pricing implied around a 70% chance of a larger 50bps cut. It was not a unanimous decision with Governor Michelle Bowman dissenting in favour of a 25bps reduction. The US dollar fell alongside treasury yields while equity markets gained immediately following the decision.

The Fed has gained greater confidence that inflation is moving sustainably towards 2% and judges the risks to achieving its employment and inflation goals are roughly in balance. The decision to opt for a bigger initial cut suggests the central bank wants policy settings to be closer to neutral. The Fed will consider 'additional adjustments to rates' based on incoming data, the evolving outlook and the balance of risks.

In updated projections, the median FOMC member forecast 50bps of rate cuts by the end of the year and a further 100bps in 2025. Fed policy makers also lifted forecasts where they see rates settling over the long term to 2.9% from 2.8% previously. In the summary of economic projections, unemployment forecasts were revised higher, and inflation forecasts were decreased compared with June.

Chair Powell noted in the press conference that the Fed is not on any preset course and that it will continue making decisions meeting by meeting. He said the risks to employment and inflation were roughly in balance. He also said that the recalibration process will take time and that

no one should look at the 50bps cut and say this is a new pace.

US treasury yields, which were modestly higher ahead of the FOMC, fell sharply following the decision led by the front end of the yield curve as the market priced additional easing for this year. 2-year yields dropped to a low of 3.54%, a new low for the cycle, before retracing. 10-year yields are little changed at 3.68%.

The US dollar fell sharply, in line with the move lower in front end treasury yields and made broad based losses against G10 currencies. The dollar index (DXY) fell more than 0.5% to the lowest level in a year before partially retracing the move. NZD/USD moved higher amid the weaker US dollar backdrop, peaking above 0.6260, before pulling back.

UK inflation for August was in line with consensus estimates. Headline CPI increased 2.2% on an annual basis while core increased 3.6%. Services inflation, the BOE's key measure of domestic price pressures, was also in line with consensus estimates at 5.6%. The data didn't materially alter expectations that the Bank of England will keep rates on hold at its meeting this evening.

It was a quiet local session for NZ fixed income yesterday ahead of the FOMC. The swap curve moved 3bps higher in a parallel shift reflecting offshore moves. 2-year swap rates closed at 3.65%. The government curve also shifted 3bps higher with 10-year NZGBs ending the session at 4.12%.

The NZGB market looks ahead to the weekly bond tender this afternoon. New Zealand Debt Management is tendering NZ\$500 million of nominal NZGBs today split across May-31 (\$250m), May-34 (\$200m) and Apr-37 (\$50m).

Australian 10-year government bond futures are ~3bps higher in yield since the local close yesterday, suggesting a modest upward bias for NZ yields on the open.

NZ Q2 GDP data is released today. We forecast the economy contracted by 0.4% during the quarter compared with the RBNZ's -0.5% projection from the August Monetary Policy Statement. In Australia, the consensus looks for unemployment rate to remain unchanged at 4.2% and monthly employment growth of 26k, continuing the recent solid trend.

The Bank of England is unanimously expected to leave rates on hold at 5.0% having delivered the first 25bps cut of the cycle in August. The committee will likely require further evidence that wages and services inflation is cooling with a new set of forecasts available for its November meeting.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	GDP SA (q/q%)	2Q	-0.4	0.2	10:45
AU	Employment Change	Aug	26	58.2	13:30
AU	Unemployment Rate	Aug	4.2	4.2	13:30
UK	Bank of England Bank Rate	Sep	5	5	23:00
US	Phil. Fed Business Outlook	Sep	-1	-7	00:30
US	Initial Jobless Claims	14 Sep	230	230	00:30
US	Existing Home Sales (m/m%)	Aug	-1.27	1.3	02:00

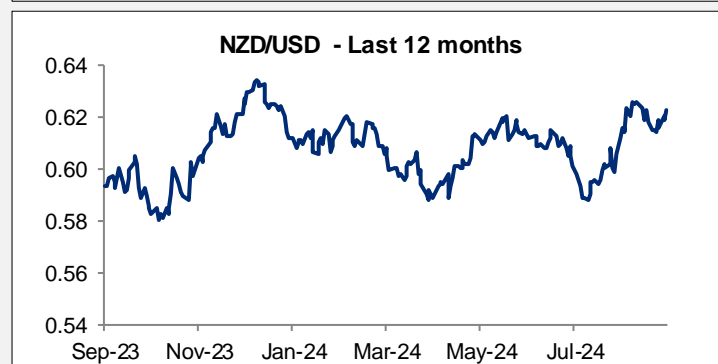
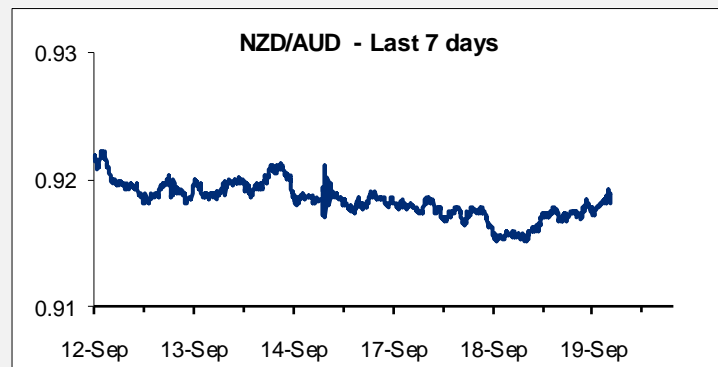
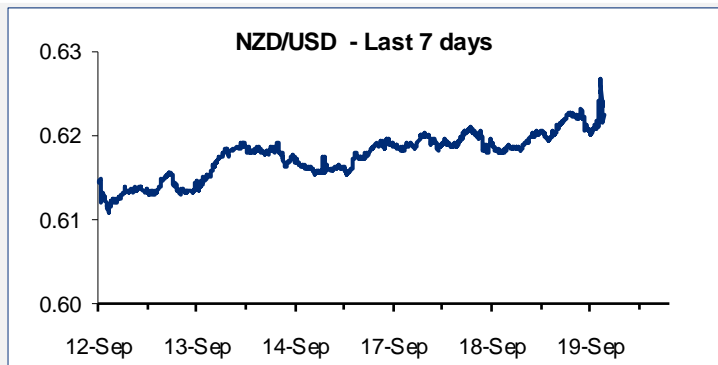
Source: Bloomberg, BNZ

Currencies						Equities				Commodities						
Global froces		Indicative overnight ranges (*)			Other FX		Major Indices				Price (Near futures, except CRB)					
	Last	% Day	Low	High		Last	% Day			Last	Net Day					
NZD	0.6228	+0.7	0.6201	0.6268	CHF	0.8433	-0.4	S&P 500	5,662	+0.4	27.1	Oil (Brent)	73.17	-0.7		
AUD	0.6783	+0.4	0.6756	0.6820	SEK	10.180	-0.1	Dow	41,686	+0.3	20.4	Oil (WTI)	70.44	-1.0		
EUR	1.1145	+0.3	1.1108	1.1189	NOK	10.555	-0.5	Nasdaq	17,658	+0.3	28.8	Gold	2570.2	+0.0		
GBP	1.3242	+0.6	1.3182	1.3298	HKD	7.792	-0.0	Stoxx 50	4,835	-0.5	13.9	HRC steel	703.0	+0.4		
JPY	141.50	-0.6	140.45	142.07	CNY	7.081	-0.2	FTSE	8,254	-0.7	7.8	CRB	278.7	+0.7		
CAD	1.3585	-0.1			SGD	1.293	-0.3	DAX	18,711	-0.1	19.0	Wheat Chic.	595.5	+0.0		
NZD/AUD	0.9182	+0.3			IDR	15,335	+0.0	CAC 40	7,445	-0.6	2.3	Sugar	21.16	+5.8		
NZD/EUR	0.5588	+0.4			THB	33.29	-0.4	Nikkei	36,380	+0.5	9.4	Cotton	69.68	-1.6		
NZD/GBP	0.4703	+0.1			KRW	1,324	+0.0	Shanghai	2,717	+0.5	-13.0	Coffee	264.4	-1.3		
NZD/JPY	88.13	+0.1			TWD	31.99	+0.3	ASX 200	8,142	+0.0	13.1	WM powder	3450	-0.3		
NZD/CAD	0.8461	+0.6			PHP	55.73	+0.1	NZX 50	12,587	-0.7	11.0	Australian Futures				
NZ TWI	71.12	+0.4						VIX Index	17.49	-0.7	+24.9	3 year bond	96.64	-0.03		
Interest Rates												10 year bond			96.10	-0.03
Rates		Swap Yields			Benchmark 10 Yr Bonds		NZ Government Bonds			NZ BKBM and Swap Yields						
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day		Last	Chg		Last	Chg			
USD	5.00	5.08	3.39	3.23	USD	3.68	0.04	15-May-26	3.89	0.04	BKBM 1-mth	5.26	-0.01			
AUD	4.35	4.42	3.61	3.98	AUD	3.86	0.03	15-Apr-27	3.67	0.04	BKBM 3-mth	5.01	0.00			
NZD	5.25	5.01	3.65	3.81	NZD	4.13	0.04	15-May-28	3.66	0.04	1 year	4.20	0.02			
EUR	3.50	3.48	2.50	2.44	GER	2.19	0.05	20-Apr-29	3.71	0.04	2 year	3.65	0.03			
GBP	5.00	5.30	3.85	3.49	GBP	3.85	0.08	15-May-30	3.82	0.04	3 year	3.50	0.03			
JPY	0.23	-0.03	0.44	0.87	JPY	0.83	0.00	15-May-31	3.92	0.04	5 year	3.52	0.03			
CAD	4.25	4.97	2.83	2.79	CAD	2.91	0.02	15-May-32	4.02	0.04	7 year	3.64	0.03			
						NZ Inflation-Indexed Bonds			14-Apr-33	4.09	0.04	10 year	3.81	0.03		
						Sep-30	2.09	0.02	15-May-34	4.13	0.04	15 year	4.01	0.03		
						Sep-35	2.40	0.02	15-May-35	4.21	0.04					
						Sep-40	2.65	0.02	15-May-36	4.30	0.04					
									15-May-37	4.39	0.04					
									15-May-41	4.58	0.03					
									15-May-51	4.65	0.04					
									15-May-54	4.69	0.04					

* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer
 Rates are as of: NZT 07:13
 Source: Bloomberg

NZD exchange rates

19/09/2024	7:13 am	Prev. NY close
USD	0.6228	0.6184
GBP	0.4703	0.4699
AUD	0.9182	0.9153
EUR	0.5588	0.5564
JPY	88.13	88.07
CAD	0.8461	0.8409
CHF	0.5252	0.5239
DKK	4.1685	4.1519
FJD	1.3840	1.3773
HKD	4.8530	4.8201
INR	52.17	51.87
NOK	6.5737	6.5599
PKR	173.40	172.38
PHP	34.71	34.44
PGK	2.4338	2.4025
SEK	6.3400	6.3022
SGD	0.8051	0.8021
CNY	4.4075	4.3889
THB	20.72	20.59
TOP	1.4317	1.4462
VUV	74.11	73.80
WST	1.6810	1.6690
XPF	67.06	66.61
ZAR	10.9024	10.8958



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.42	-0.02
3 Months	-0.17	0.33
6 Months	-2.12	-1.12
9 Months	-6.68	-4.65
1 Year	-8.63	-5.63

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-5.09	-4.20
3 Months	-10.74	-9.47
6 Months	-10.52	-7.69
9 Months	-9.79	-4.01
1 Year	-4.51	4.01

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