

Research Markets Today

20 December 2024

Events Round-Up

US: Fed Funds rate (Upper bd %), Dec: 4.5 vs. 4.5 exp.
 NZ: GDP (q/q%), Q3: -1.0 vs. -0.2 exp.
 NZ: ANZ activity outlook (net%), Dec: 50.3 vs. 48.0 prev.
 GE: GfK consumer confidence, Jan: XX vs. -22.5 exp.
 JN: BoJ target rate (%), Dec: 0.25 vs. 0.25 exp.
 UK: Bank of England bank rate (%), Dec: 4.75 vs. 4.75 exp.
 US: Philly Fed business outlook, Dec: -16.4 vs. 2.8 exp.
 US: Initial jobless claims (k), wk to 14 Dec: 220 vs. 230 exp.
 US: Existing home sales (m/m%), Nov: 4.8 vs. 3.2 exp.

Good Morning

US equities have recovered a little after the slump following the Fed's policy update yesterday. The US 10-year rate has pushed higher and the curve has steepened. The USD DXY index has appreciated to a fresh two-year high, with the gain post the Fed meeting extended after a slump in the yen after a dovish BoJ update.

There have been significant movements in the market since our report yesterday, which just pre-dated the Fed's policy update. A "hawkish" 25bps rate cut was widely expected and while that was delivered, taking the Fed Funds target range down to 4.25-4.5%, the announcement included a number of hawkish surprises.

These included (1) a dissent by Cleveland Fed President Hammack, who voted to keep rates on hold, alongside a set of projections showing three other FOMC members – non-voters – who would have preferred to leave policy on hold, (2) projections showing just 50bps of cuts next year, in line with market pricing pre-meeting, but less than the 75bps that economists were widely expecting, (3) a distribution of Fed Funds projections that implied less comfort with the median view and (4) more evident uncertainty about the inflation outlook revealed in the projections.

Chair Powell's press conference didn't sway from the more hawkish policy bias. He noted the decision to cut rates at this meeting was a closer call compared to November and policy is now "significantly closer to neutral" after 100bps of rate cuts.

US equities tanked into the close while Treasury yields and the USD dollar shot higher. Following the near 3% fall in the S&P500 yesterday, the index has recovered 0.2% in early afternoon trading.

The US Treasuries curve has steepened, with 2s10s up to 27bps, the steepest since mid-2022. The 2-year rate has reversed course, down 5bps for the day, while the 10-year rate is up 6bps to 4.58% adding to the 12bps upward lift after Fed meeting. The move in the 10-year rate takes it to its highest level since the end of May. Market pricing for rate cuts next year has been significantly pared, with about 1½ cuts priced. The threat of a US government shutdown this weekend has risen with House Republican's scrambling to rush through new legislation and with Trump making his view clear from the sidelines, wanting to drop some new pork-barrel spending from the bill.

US economic data released overnight didn't move the needle, with initial jobless claims falling 22k to 220k last week, reversing the sharp increase the previous week which was affected by the Thanksgiving holiday. The four-week moving average has been pushing higher over recent weeks. In the third estimate of Q3 GDP, the annualised growth rate was revised up three-tenths to 3.1%, while the annualised core PCE deflator was revised up one-tenth to 2.2%. Existing home sales rose a stronger than expected 4.8% m/m in November, although they remain historically low. The Philadelphia Fed index showed a slump in manufacturing in December, with the index falling to an eight-month low of minus 16.4 against expectations for a lift to +2.8.

The USD DXY index rose to a fresh two-year high after the Fed announcement with broadly based gains. The overnight move has been more mixed. While the DXY index has extended its gain, this largely reflects a slump in the yen post the BoJ update and a softer GBP post the BoE update.

The BoJ kept policy unchanged, as widely expected, although one Board member voted for a 25bps rate hike. But in a dovish tilt, Governor Ueda said "it will take a long time before the full picture is clear for both the spring wage negotiations and the Trump administration's policies", reducing expectations that the BoJ would hike in January, delaying the decision until March/April. The yen tumbled, with further weakness overnight, seeing USD/JPY trade as high as 157.80, raising the chance that the MoF will have to step in and intervene to prevent or slow

further yen weakness in the near future. The yen is 2½% weaker since this time yesterday and NZD/JPY is trading around 89.

The BoE kept its policy rate unchanged at 4.75% but the outcome was dovish, with the vote being 6-3 – Deputy Governor Ramsden and newest MPC member Taylor joining perennial dove Dhingra in voting for a 25bps cut. Governor Bailey said “we think a gradual approach to future interest rate cuts remains right...but with heightened uncertainty in the economy we can’t commit to when or by how much we will cut rates in the coming year.” The market priced in slightly more scope for easing next year, with two full cuts and a good chance of a third, while GBP weakened from as high as 1.2665 pre meeting to be currently 1.2515. NZD/GBP has recovered from a near-9 year low of 0.4460 yesterday afternoon to back just over 0.45.

The NZD fell to a fresh two-year low after the Fed meeting and slumped further after the NZ GDP release (see below). After trading at a low of 0.5608 in early afternoon trading, the NZD has recovered a little to about 0.5640. Supporting the recovery, yesterday the PBoC kept a strong hold on the Chinese yuan, in an attempt to limit its pace of depreciation, and preventing USD/CNY moving above 7.30, at least for now.

The NZ GDP release was a mixed bag. Optically it was terrible, with the economy contracting by a much larger than expected 1.0%, and Q2 heavily revised down to 1.1% q/q, suggesting the economy contracting at an annualised pace of more than 4% over the six-month period. But upward historical revisions meant that this contraction was off a much stronger base. Measured against the RBNZ’s November forecasts, the level of economic activity was 0.6% higher than expected, even if the more recent period showed a much deeper downturn. The ANZ business outlook survey confirmed optimism for the year-ahead in the face of lower interest rates.

The AUD followed a similar path to the NZD, dipping its toe to a low of 0.6199 before regaining its poise and recovering to 0.6250. Post the NZ GDP release, NZD/AUD fell 50pips to 0.9040 and it currently trades even lower at 0.9030 after a modest recovery overnight wasn’t sustained. NZD/EUR has recovered from a low just over 0.5410 to 0.5445.

In the domestic rates market, there was more attention on the slump in recent growth momentum than the upward revisions to GDP, driving down OIS rates, seeing the market add more than 10bps to next year’s rate cut profile. Curves were significantly steeper, with domestic

forces driving down short-term rates and global forces driving up long term rates. Short-term NZGB yields closed lower in yield on the day, while the ultra-long bonds rose 6bps. In the swap market the 2-year rate fell 6bps to 3.50% against a 3bps lift in the 10-year rate to 4.01%. Terminal pricing for the OCR is now just over 3%.

In the day ahead, the economic calendar remains heavy, with the ANZ monthly NZ consumer confidence index and trade data, ahead of Japan CPI data this afternoon. The key US economic release tonight will be the PCE deflator, with the consensus slightly favouring a 0.2% m/m for the core rate, although many are picking a smaller 0.1% increase. US monthly spending and income data will also be released while retail sales data are released for the UK and Canada.

This is the last BNZ Markets Today for the year. Regular publication will resume in mid-January. We thank you for your readership over the year and hope you have a good break during the festive season.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	ANZ consumer confidence	Dec	99.8	100.0	10:00
NZ	Trade balance (ann \$b)	Nov	-9.0	-9.0	10:45
JN	CPI (y/y%)	Nov	2.9	2.3	12:30
JN	CPI ex fr. food, energy (y/y%)	Nov	2.4	2.3	12:30
UK	Retail sales ex auto fuel (m/m%)	Nov	0.5	-0.9	20:00
CA	Retail sales ex auto (m/m%)	Oct	0.4	0.9	02:30
US	Personal income (m/m%)	Nov	0.4	0.6	02:30
US	Real personal spending (m/m%)	Nov	0.3	0.1	02:30
US	Core PCE deflator (m/m%)	Nov	0.2	0.3	02:30
US	Core PCE deflator (y/y%)	Nov	2.9	2.8	02:30
EC	Consumer confidence	Dec	-14	-13.7	04:00
US	U. of Mich. consumer sentiment	Dec	74.2	74	04:00
US	U. of Mich. 5-10y inflation exp.	Dec	3.1	3.1	04:00

Source: Bloomberg, BNZ

Currencies							Equities				Commodities				
FX Majors	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	0.5641	+0.3	0.5622	0.5662	CHF	0.8995	-0.2	S&P 500	5,888	+0.3	23.5	Oil (Brent)	72.75	-0.9	
AUD	0.6247	+0.5	0.6215	0.6265	SEK	11.037	-0.8	Dow	42,508	+0.4	13.2	Oil (WTI)	70.02	-0.8	
EUR	1.0361	+0.1	1.0355	1.0422	NOK	11.445	+0.5	Nasdaq	19,484	+0.5	29.9	Gold	2592.0	-1.7	
GBP	1.2510	-0.5	1.2508	1.2667	HKD	7.772	+0.0	Stoxx 50	4,879	-1.6	7.6	HRC steel	683.0	+0.4	
JPY	157.72	+1.9	154.93	157.81	CNY	7.296	+0.1	FTSE	8,105	-1.1	6.1	CRB	292.0	+0.4	
CAD	1.4379	-0.5			SGD	1.362	-0.1	DAX	19,970	-1.3	19.3	Wheat Chic.	543.3	-1.5	
NZD/AUD	0.9030	-0.2			IDR	16,313	+1.3	CAC 40	7,294	-1.2	-3.7	Sugar	19.47	-1.0	
NZD/EUR	0.5444	+0.2			THB	34.58	+0.2	Nikkei	38,814	-0.7	15.3	Cotton	67.93	-0.2	
NZD/GBP	0.4509	+0.8			KRW	1,447	+0.6	Shanghai	3,370	-0.4	16.1	Coffee	324.6	-2.4	
NZD/JPY	88.97	+2.3			TWD	32.68	+0.6	ASX 200	8,168	-1.7	8.4	WM powder	3730	+0.0	
NZD/CAD	0.8111	-0.2			PHP	59.00	-0.0	NZX 50	12,754	-0.9	10.1	Australian Futures			
NZ TWI	67.79	+0.4						VIX Index	23.36	-15.4	+86.4	3 year bond	96.08	-0.14	
Interest Rates											10 year bond			95.48	-0.13
Rates		Swap Yields			Benchmark 10 Yr Bonds		NZ Government Bonds			NZ BKBM and Swap Yields					
	Cash	3Mth	2 Yr	10 Yr	USD	Last	Net Day		Last	Chg		Last	Chg		
USD	4.50	4.85	4.15	4.09	USD	4.58	0.07	15-Apr-27	3.70	-0.03	BKBM 1-mth	4.37	0.00		
AUD	4.35	4.46	3.96	4.49	AUD	4.41	0.13	15-May-28	3.78	-0.01	BKBM 3-mth	4.25	0.00		
NZD	4.25	4.25	3.50	4.01	NZD	4.48	0.04	20-Apr-29	3.91	0.00	1 year	3.64	-0.07		
EUR	3.00	2.85	2.21	2.32	GER	2.31	0.06	15-May-30	4.05	0.01	2 year	3.50	-0.06		
GBP	4.75	5.30	4.31	4.10	GBP	4.58	0.02	15-May-31	4.20	0.02	3 year	3.51	-0.04		
JPY	0.23	-0.03	0.62	1.04	JPY	1.08	-0.00	15-May-32	4.33	0.03	5 year	3.65	0.00		
CAD	3.25	4.97	2.92	3.08	CAD	3.34	0.12	14-Apr-33	4.41	0.04	7 year	3.82	0.01		
								15-May-34	4.48	0.04	10 year	4.01	0.03		
								15-May-35	4.57	0.04	15 year	4.23	0.03		
								15-May-36	4.66	0.05					
					NZ Inflation-Indexed Bonds										
					Sep-30	2.34	-0.01	15-May-37	4.75	0.05					
					Sep-35	2.71	0.03	15-May-41	4.96	0.05					
					Sep-40	2.96	0.02	15-May-51	5.11	0.06					
								15-May-54	5.14	0.06					

* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer
 Rates are as of: NZT 06:59

Source: Bloomberg

NZD exchange rates

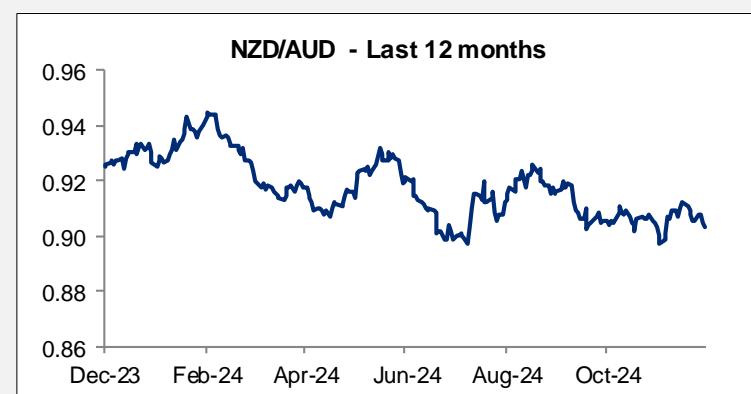
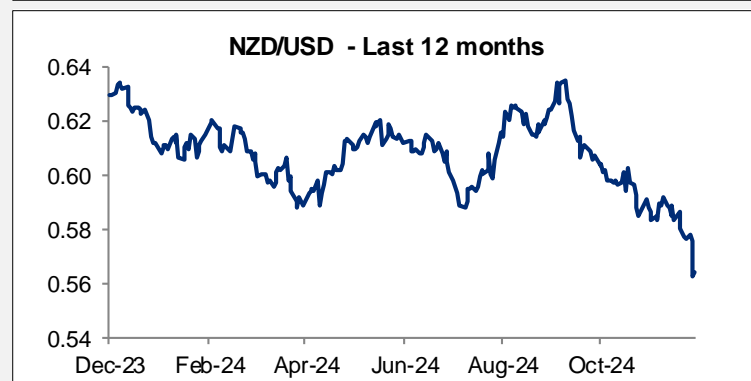
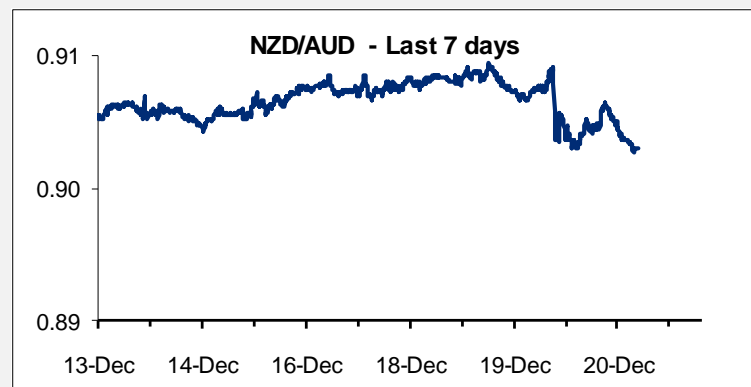
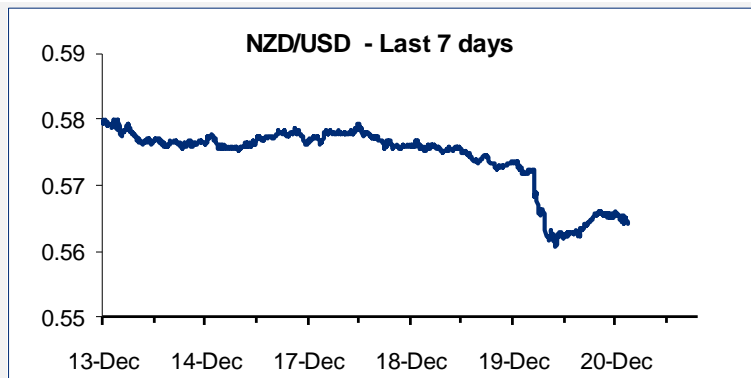
20/12/2024 6:59 am	Prev. NY close
USD	0.5641 / 0.5624
GBP	0.4509 / 0.4473
AUD	0.9030 / 0.9045
EUR	0.5444 / 0.5432
JPY	88.97 / 87.06
CAD	0.8111 / 0.8125
CHF	0.5074 / 0.5068
DKK	4.0614 / 4.0533
FJD	1.3183 / 1.3143
HKD	4.3843 / 4.3701
INR	47.99 / 47.78
NOK	6.4562 / 6.4038
PKR	156.94 / 156.41
PHP	33.28 / 33.18
PGK	2.2709 / 2.2632
SEK	6.2258 / 6.2592
SGD	0.7684 / 0.7666
CNY	4.1156 / 4.0975
THB	19.48 / 19.26
TOP	1.3672 / 1.3445
VUV	69.53 / 69.32
WST	1.5735 / 1.5728
XPF	64.54 / 64.37
ZAR	10.3964 / 10.3164

NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	1.00	1.40
3 Months	5.38	5.89
6 Months	17.41	18.53
9 Months	31.28	33.43
1 Year	45.24	48.24

NZD/AUD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	1.11	2.01
3 Months	7.21	8.62
6 Months	22.70	25.90
9 Months	40.12	45.70
1 Year	56.13	65.14



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