Research

Markets Today

20 September 2024

Events Round-Up

NZ: GDP (q/q%), Q2: -0.2 vs. -0.4 exp.

AU: Employment change (k), Aug: 47.5 vs. 26.0 exp.

AU: Unemployment rate (%), Aug: 4.2 vs. 4.2 exp.

UK: Bank of England Bank Rate (%), Sep: 5.0 vs. 5.0 exp.

US: Phil. Fed business outlook, Sep: 1.7 vs 0.0 exp.

US: Initial jobless claims (k), wk to 14 Sep: 219 vs. 230 exp.

US: Existing home sales (m/m%), Aug: -2.5 vs. -1.3 exp.

Good Morning

In the afterglow of the Fed's jumbo 50bps rate cut, US equities show a strong lift to fresh record highs while the US Treasuries curve has steepened further, with longer term yields pushing higher, not helped by jobless claims falling and higher oil prices. The USD is broadly weaker. Against a backdrop of higher risk appetite, the NZD has recovered to 0.6250. GBP outperformed after the market pared rate cut expectations following the BoE's on-hold decision.

Markets have embraced the Fed's message that yesterday's 50bps cut was from a position of strength, not weakness, as it attempts to engineer a soft-landing for the economy. Fed Chair Powell's performance in selling the message was a masterstroke, with the market not worried that an initial 50bps cut signalled economic concerns. Risk appetite is higher and US equities are up strongly after the initial "meh" response post-meeting. The S&P500 is currently up almost 2% to a fresh record high while the Nasdaq index is up around 2.7%.

The US Treasuries curve has steepened further with the 2s10s gap now 14bps, the steepest since mid-2022, with the 2-year rate down a touch and the 10-year rate up a few bps to 3.74%. The market is pricing 36bps of cuts for the November meeting, so slightly favouring 25bps over 50bps, and 72bps over November/December so a high chance that at one of the remaining two meetings another 50bps cut is thrown into the mix.

US economic releases overnight were second-tier, but initial jobless claims unexpectedly fell by 12k to 219k last week, the lowest since May, although analysts note seasonal adjustment issues at this time of year around the Labour Day holiday so one shouldn't jump to conclusions. The 10-year rate jumped up 5bps on the release, with the move only partially unwound. Existing home sales disappointingly fell by 2.5% m/m in August to a 10-month low while the Philly Fed manufacturing index rose 8.7pts to 1.7 in September, recovering less than half of the plunge in August.

Against a backdrop of higher risk appetite, although simmering tensions in the Middle East might also be a factor, oil prices continue to recover, with Brent crude up 1½% to near USD75 per barrel, after trading at a low of sub USD70 ten days ago.

In other key news, the Bank of England voted 8-1 to keep policy steady, as expected, opting to skip a rate cut this meeting and guide to November for a second rate cut this cycle. The outlook statement added "In the absence of material developments, a gradual approach to removing policy restraint remains appropriate", while leaving the comment "Monetary policy will need to continue to remain restrictive for sufficiently long until the risks to inflation returning sustainably to the 2% target in the medium term have dissipated further."

The BoE's patient approach to cutting rates reflects some ongoing unease about residual inflation pressure, with services sector CPI running at 5.6% y/y. The market fully prices a 25bps cut in November and 43bps by year-end, a modest paring of rate cut expectations compared to pre-meeting. The modest lift in UK gilt yields across the curve supported GBP and it traded at a fresh 2½ year high just over 1.33 before settling below the figure.

The USD is broadly weaker in the aftermath of the Fed rate cut and the NZD has been supported against the backdrop of increased risk appetite. The NZD has recovered overnight to around 0.6250 after probing just under 0.6270, similar to the level reached in the minutes after the Fed's announcement, possibly signalling a new level of short-term resistance. The AUD has settled above 0.68 and NZD/AUD has settled around 0.9165.

Against a backdrop of higher risk appetite, JPY has underperformed although after a run towards 144, USD/JPY is back down to 142.60. NZD/JPY is up through 89. While EUR is higher, NZD/EUR has pushed up to 0.56.

Yesterday, Australia employment grew by a robust 47.5k in August, meeting strong growth in labour supply to keep the unemployment rate steady at 4.2%. Some traders were clearly hoping for a weaker outcome that would justify an RBA rate cut this year, but there was nothing in the report to justify a change in RBA view, resulting in higher rates and a stronger AUD.

NZ Q2 GDP contracted by 0.2% q/q, slightly less than most expected, but consistent with the narrative that the economy has been rolling in and out of recession for the past couple of years, resulting in a building up of spare capacity and falling inflation pressures.

The domestic rates market had a rollercoaster ride, with global forces pushing up yields into the afternoon, before reversing a lot of the move late in the session. The net result was swaps closing up 2-3bps, while tepid demand at the bond tender resulted some notable curve steepening in NZGBs, with short end rates up 1bp but longer-term rates up 5-6bps. The Australian 10-year bond future is up 3bps in yield terms since the NZ close.

In the day ahead, the focus turns to Japan, with CPI data released ahead of the BoJ's policy meeting announcement. CPI inflation figures are expected to push higher but no one expects the BoJ to hike again, so soon after the end-July hike, with a majority expecting the next hike at the December meeting.

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Coming Up

		Period	Cons.	Prev.	NZT
UK	GfK consumer confidence	Sep	-13	-13	11:01
JN	CPI (y/y%)	Aug	3.0	2.8	11:30
JN	CPI x fr. food, energy (y/y%)	Aug	2.0	1.9	11:30
JN	BOJ Target Rate	Sep	0.25	0.25	
UK	Retail sales ex auto fuel (m/m%)	Aug	0.5	0.7	18:00
CA	Retail sales ex auto (m/m%)	Jul	0.3	0.3	00:30
EA	Consumer confidence	Sep	-13.2	-13.5	02:00

Source: Bloomberg, BNZ

Currencies

Global froces / **Indicative overnight ranges (*)**

	Last	% Day	Low	High
NZD	0.6248	+0.6	0.6218	0.6269
AUD	0.6819	+0.8	0.6786	0.6839
EUR	1.1165	+0.4	1.1117	1.1179
GBP	1.3284	+0.5	1.3220	1.3314
JPY	142.64	+0.2	142.04	143.77
CAD	1.3557	-0.3		
NZD/AUD	0.9163	-0.2		
NZD/EUR	0.5596	+0.2		
NZD/GBP	0.4703	+0.1		
NZD/JPY	89.12	+0.9		
NZD/CAD	0.8470	+0.3		
NZ TWI	71.26	+0.3		

Other FX

	Last	% Day
CHF	0.8468	+0.1
SEK	10.155	-0.5
NOK	10.491	-0.9
HKD	7.795	+0.0
CNY	7.063	-0.3
SGD	1.292	-0.3
IDR	15,239	-0.6
THB	33.13	-0.7
KRW	1,329	+0.4
TWD	31.94	-0.1
PHP	55.61	-0.2

Equities

Major Indices

	Last	% Day	% Year
S&P 500	5,726	+1.9	28.8
Dow	42,066	+1.4	21.9
Nasdaq	18,046	+2.7	31.9
Stoxx 50	4,943	+2.2	16.5
FTSE	8,329	+0.9	8.7
DAX	19,002	+1.6	21.3
CAC 40	7,615	+2.3	4.6
Nikkei	37,155	+2.1	12.5
Shanghai	2,736	+0.7	-12.0
ASX 200	8,192	+0.6	14.4
NZX 50	12,665	+0.6	11.8
VIX Index	16.80	-7.8	+19.1

Commodities

Price (Near futures, except CRB)

	Last	Net Day
Oil (Brent)	74.76	+1.5
Oil (WTI)	71.89	+1.5
Gold	2591.6	+0.6
HRC steel	705.0	+0.3
CRB	279.8	+0.4
Wheat Chic.	586.0	-1.6
Sugar	21.93	+3.6
Cotton	71.58	+0.5
Coffee	261.7	-0.7
WM powder	3450	+0.0

Australian Futures

	Last	Net Day
3 year bond	96.56	-0.08
10 year bond	96.02	-0.06

Interest Rates

	Rates		Swap Yields	
	Cash	3Mth	2 Yr	10 Yr
USD	5.00	5.08	3.40	3.28
AUD	4.35	4.42	3.67	4.05
NZD	5.25	5.00	3.67	3.84
EUR	3.50	3.46	2.47	2.45
GBP	5.00	5.30	3.87	3.55
JPY	0.23	-0.03	0.44	0.89
CAD	4.25	4.97	2.84	2.83

Benchmark 10 Yr Bonds

	Last	Net Day
USD	3.74	0.03
AUD	3.93	0.07
NZD	4.18	0.05
GER	2.20	0.01
GBP	3.89	0.04
JPY	0.85	0.02
CAD	2.94	0.01

NZ Inflation-Indexed Bonds

Sep-30	2.10	0.01
Sep-35	2.41	0.01
Sep-40	2.65	0.01

NZ Government Bonds

	Last	Chg
15-May-26	3.90	0.01
15-Apr-27	3.69	0.01
15-May-28	3.68	0.02
20-Apr-29	3.74	0.03
15-May-30	3.85	0.04
15-May-31	3.96	0.04
15-May-32	4.06	0.04
14-Apr-33	4.14	0.05
15-May-34	4.18	0.05
15-May-35	4.26	0.05
15-May-36	4.35	0.05
15-May-37	4.44	0.05
15-May-41	4.64	0.06
15-May-51	4.71	0.06
15-May-54	4.75	0.06

NZ BKBM and Swap Yields

	Last	Chg
BKBM 1-mth	5.23	-0.03
BKBM 3-mth	5.00	-0.01
1 year	4.21	0.01
2 year	3.67	0.02
3 year	3.53	0.03
5 year	3.55	0.03
7 year	3.67	0.03
10 year	3.84	0.03
15 year	4.04	0.04

* These are indicative ranges from 5pm NZT;
please confirm rates with your BNZ dealer
Rates are as of: NZT 06:57
Source: Bloomberg

NZD exchange rates

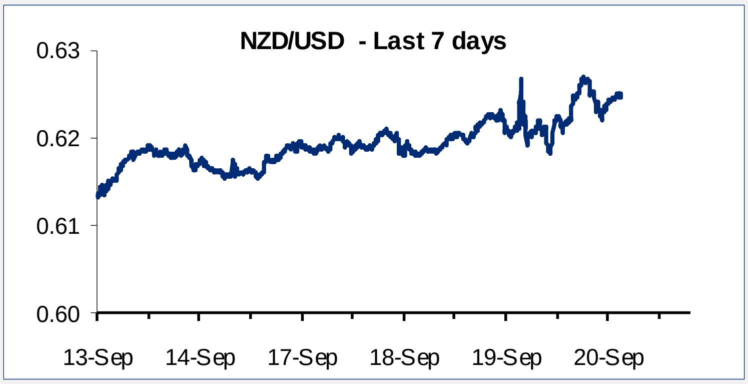
20/09/2024	6:58 am	Prev. NY close
USD	0.6248	0.6209
GBP	0.4703	0.4699
AUD	0.9163	0.9179
EUR	0.5596	0.5584
JPY	89.12	88.35
CAD	0.8470	0.8447
CHF	0.5291	0.5254
DKK	4.1744	4.1657
FJD	1.3768	1.3850
HKD	4.8700	4.8387
INR	52.29	52.01
NOK	6.5547	6.5753
PKR	173.67	173.08
PHP	34.74	34.60
PGK	2.4397	2.4273
SEK	6.3451	6.3389
SGD	0.8071	0.8042
CNY	4.4128	4.3940
THB	20.68	20.65
TOP	1.4403	1.4453
VUV	74.40	73.92
WST	1.6876	1.6772
XPF	67.37	66.94
ZAR	10.9484	10.8939

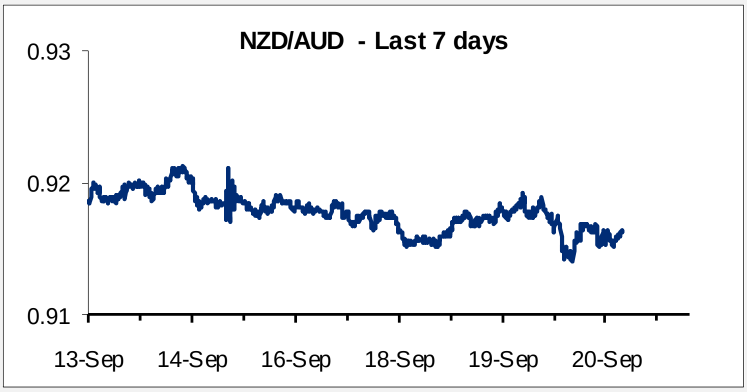
NZD/USD Forward Points

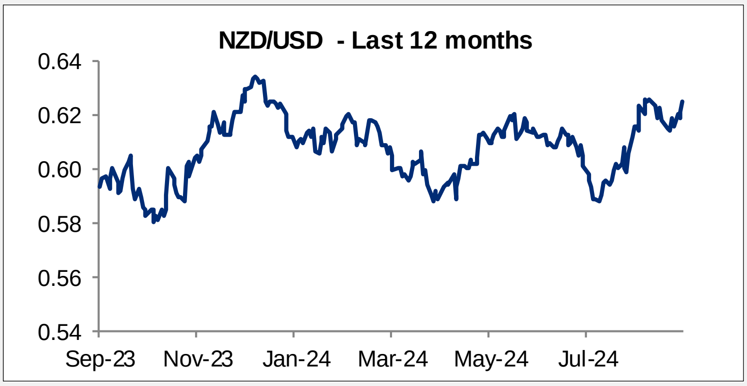
	BNZ buys NZD	BNZ sells NZD
1 Month	-0.32	-0.12
3 Months	-0.26	0.25
6 Months	-3.57	-2.57
9 Months	-7.66	-5.66
1 Year	-10.31	-7.31

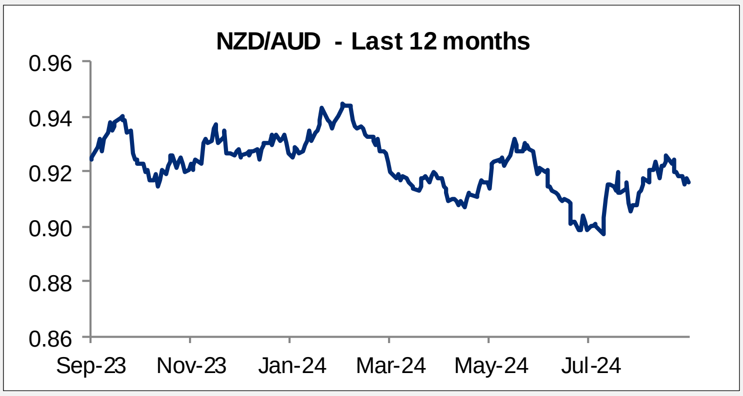
NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-4.31	-3.84
3 Months	-8.65	-7.39
6 Months	-8.87	-6.59
9 Months	-5.85	-1.21
1 Year	0.60	7.68









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