

Research Markets Today

21 August 2024

Events Round-Up

NZ: REINZ house sales (y/y%), Jul: 14.5 vs. -25.6 prev.
 NZ: Trade balance (ann \$b), Jul: -9.3 vs. -9.5
 CA: CPI (y/y%), Jul: 2.5 vs. 2.5 exp.
 CA: CPI core (avg median/trim y/y%), Jul: 2.55 vs. 2.65 exp.

Good Morning

Against a backdrop of little newsflow, US equities are flat. US Treasury yields are down 5-6bps and the USD is again broadly weaker, taking the DXY index down to fresh lows for the year. The yen is the strongest of the majors while the NZD has recovered further to just over 0.6150.

Newsflow remains light. In economic news, Canadian CPI inflation fell two-tenths to 2.5% y/y in July, while the core measure based on an average of the median and trimmed mean fell to 2.55%, the latter coming in slightly below consensus. Both figures were at their lowest levels in around 3½ years. The data paved the way for further Bank of Canada rate cuts. The central bank has already cut by 25bps twice over consecutive meetings, and the market sees this trend continuing into next year. On another day of broad USD weakness, USD/CAD is little changed, while NZD/CAD has recovered further to 0.8385.

Canadian rates fell after the benign inflation data and this supported a move down in US Treasury yields, led by the short end. The 2-year Treasury yield is currently down 6bps to 4% while the 10-year rate is down 5bps to 3.82%, after trading an overnight low of 3.81%.

In addition to the soft Canadian inflation data there is market chatter about the release of the annual payrolls benchmark revision of US non-farm payrolls data tonight, for the period through to March 2024. Analysts anticipate a significant downward revision, with estimates ranging from 300k to as much as a 1000k for the year. A large downward revision would be seen as more policy friendly, adding to the chance of a more aggressive Fed easing cycle.

US equities are currently flat, with the S&P500 recovering from a mild loss as we go to print. Anything can happen in the last hour of trading and a fall would break an eight-day streak of gains.

In other news, the BoJ published research by its economics department highlighting the persistence of inflationary pressure in the economy. As reported by Bloomberg, the papers highlight the impact of the nation's chronic labour shortage on wages and the shift in corporate behaviour with regards to setting prices in the services sector. The release of the paper supported a stronger yen and a broad-based fall in the USD has seen the move extended. The yen has outperformed and USD/JPY is down to 145.40.

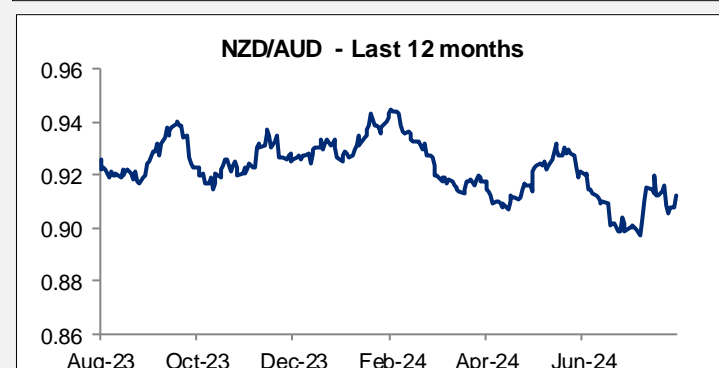
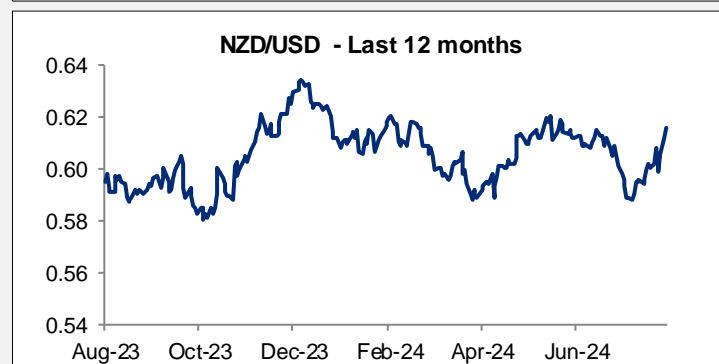
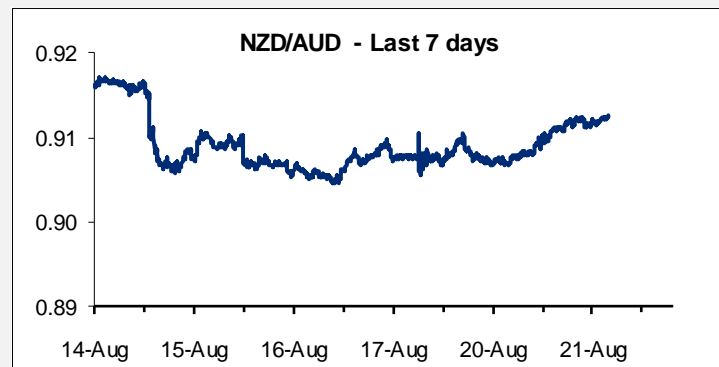
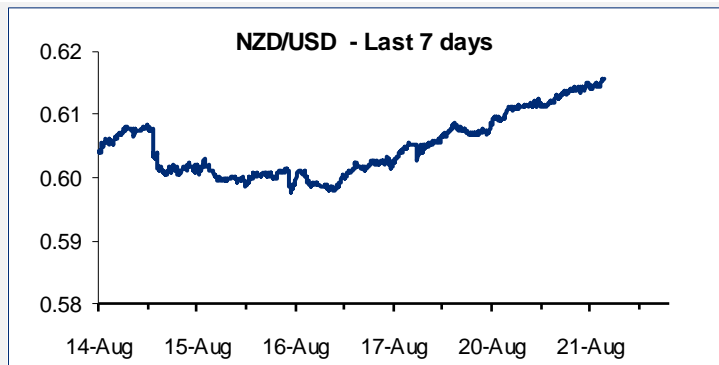
It has been a case of another day of USD weakness, the third in a row, seeing the USD DXY index down to a fresh low for the year around 101.50. A weaker USD ahead, and during, the Fed's easing cycle has been on our bingo card for some time and that time is now fast approaching. The NZD has recovered further, just past 0.6150. Key resistance is around 0.6220, a level it hasn't been able to sustainably break since January. While NZD/JPY is slightly weaker at 89.5, the NZD is higher on other key crosses, the RBNZ's dovish pivot last week now a distant memory. GBP and EUR have broken up through 1.11 and 1.30 respectively, while the NZD's outperformance sees these crosses higher at 0.4725 and 0.5535 respectively.

The AUD has appreciated towards 0.6750 while NZD/AUD is up 0.5% to 0.9125. Yesterday, the minutes of the last RBA policy meeting didn't contain any new information, highlighting previous messages that it won't be following other key developed market central banks in easing monetary policy any time soon – with rate hikes rather than cuts in the policy discussions and suggesting that it will likely need to hold interest rates for an "extended period". In the market's view this period won't be particularly long, with a high chance of a rate cut priced by the December meeting. The minutes said that the Board was "placing somewhat greater-than-usual weight on the flow of data, relative to the forecasts". Thus, a dovish pivot is entirely possible on cooperative inflation data and signs of a weaker than expected economy.

In the domestic rates market, NZDM sold \$6b of a new 2036 bond priced at 9bps over the 2035 bond, at the midpoint of initial price guidance. The final order book was just under a massive \$23b, encouraging NZDM to issue the maximum amount it was looking for and taking some pressure off the quantum of other bond syndications that will be required later in the fiscal year. NZGB yields rose 1-6bps across the curve, with outperformance for the 7-11 year sector of the curve.

NZD exchange rates

21/08/2024 6:44 am		Prev. NY close
USD	0.6157	0.6113
GBP	0.4725	0.4706
AUD	0.9126	0.9082
EUR	0.5536	0.5515
JPY	89.54	89.61
CAD	0.8389	0.8334
CHF	0.5269	0.5274
DKK	4.1311	4.1149
FJD	1.3661	1.3682
HKD	4.7956	4.7611
INR	51.59	51.27
NOK	6.4638	6.4496
PKR	171.63	170.12
PHP	34.82	34.63
PGK	2.3911	2.3758
SEK	6.2811	6.3041
SGD	0.8036	0.7997
CNY	4.3893	4.3644
THB	21.06	21.06
TOP	1.4355	1.4370
VUV	73.51	73.27
WST	1.6751	1.6725
XPF	66.43	66.37
ZAR	10.9824	10.8210



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	0.96	1.26
3 Months	1.81	2.39
6 Months	1.75	2.75
9 Months	0.63	2.74
1 Year	-0.06	2.96

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-6.81	-6.11
3 Months	-16.17	-14.81
6 Months	-23.34	-20.69
9 Months	-25.52	-20.32
1 Year	-24.18	-15.99

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