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 of 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 broadbased 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.

In the swaps market there was lingering payside pressure at the short end of the curve as positions continue to be adjusted in the aftermath of last week's RBNZ MPS, which rocked the market. The 2-year swap rate closed the day up 6bps to 3.89% while the 10-year rate rose 3bps to 3.93. In economic news, REINZ data showed house sales bouncing back in July after a very weak June while house prices continued to push lower through the autumn/winter period. NZ's annual trade deficit continued to narrow, to \$9.3b.

The economic calendar remains light. As noted, tonight there is keen interest in the annual US payrolls benchmark

revision. Minutes from the FOMC's 31-July meeting are also released.

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Coming Up

		Period Cons.	Prev. NZT
US	Prelimin. annual payrolls bend	hmark revision	02:00
US	FOMC meeting minutes	31-Jul	06:00

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	% Day	% Year		Last	Net Day
NZD	0.6157	+0.7	0.6124	0.6157	CHF	0.8558	-0.8	S&P 500	5,605	-0.1	28.3	Oil (Brent)	77.23	-0.6
AUD	0.6747	+0.2	0.6720	0.6748	SEK	10.202	-1.1	Dow	40,855	-0.1	18.4	Oil (WTI)	74.04	-0.7
EUR	1.1121	+0.3	1.1072	1.1122	NOK	10.498	-0.5	Nasdaq	17,867	-0.1	34.4	Gold	2511.3	+0.4
GBP	1.3032	+0.3	1.2988	1.3052	HKD	7.789	+0.0	Stoxx 50	4,858	-0.3	15.3	HRC steel	662.0	+0.0
JPY	145.42	-0.8	145.35	147.19	CNY	7.129	-0.1	FTSE	8,273	-1.0	13.9	CRB	276.4	+0.3
CAD	1.3625	-0.1			SGD	1.305	-0.2	DAX	18,358	-0.3	17.9	Wheat Chic.	557.5	+1.0
NZD/AUD	0.9126	+0.5			IDR	15,436	-0.7	CAC 40	7,486	-0.2	4.5	Sugar	17.57	-2.5
NZD/EUR	0.5536	+0.4			THB	34.20	-0.6	Nikkei	38,063	+1.8	20.6	Cotton	68.80	+1.6
NZD/GBP	0.4725	+0.4			KRW	1,330	-0.3	Shanghai	2,867	-0.9	-7.3	Coffee	248.5	+1.7
NZD/JPY	89.54	-0.1			TWD	31.95	-0.2	ASX 200	7,998	+0.2	12.4	WM powder	3420	+1.8
NZD/CAD	0.8389	+0.7			PHP	56.58	-0.1	NZX 50	12,558	-0.8	9.6	Australian Fu	itures	
NZ TW I	70.88	+0.5						VIX Index	15.59	+6.4	-9.9	3 year bond	96.43	-0.04
Interest	Rates											10 year bond	96.09	0.03
	Rates		Swap Yie	elds	Benchr	nark 10 Y	r Bonds	NZ Governn	nent Bond	S		NZ BKBM and	Swap Yi	elds
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day			Last	Chg		Last	Chg
USD	5.50	5.39	3.80	3.38	USD	3.82	-0.05	15-May-26		4.03	0.06	BKBM 1-mth	5.36	0.00
AUD	4.35	4.37	3.74	4.05	AUD	3.95	0.03	15-Apr-27		3.80	0.05	BKBM 3-mth	5.25	0.01
NZD	5.25	5.25	3.89	3.93	NZD	4.21	0.02	15-May-28		3.79	0.04	1 year	4.53	0.08
EUR	3.75	3.55	2.70	2.46	GER	2.22	-0.03	20-Apr-29		3.81	0.03	2 year	3.89	0.06
GBP	5.00	5.30	4.11	3.62	GBP	3.92	-0.01	15-May-30		3.90	0.03	3 year	3.69	0.06
JPY	0.23	-0.03	0.43	0.88	JPY	0.89	0.00	15-May-31		4.01	0.02	5 year	3.67	0.05
CAD	4.50	4.97	3.23	2.91	CAD	3.02	-0.05	15-May-32		4.10	0.02	7 year	3.77	0.04
								14-Apr-33		4.16	0.02	10 year	3.93	0.03
								15-May-34		4.21	0.02	15 year	4.12	0.02
					NZ Infla	tion-Inde	exed Bonds	15-May-35		4.27	0.01			
* These are indicative ranges from 5pm NZT; Sep-30 2.11 0.02			15-May-37		4.40	0.04								
please confirm rates with your BNZ dealer Sep-35 2.42 0.02				15-May-41		4.56	0.04							
Rates are as of: NZT 06:44 Sep-40 2.66 0.01				15-May-51		4.61	0.04							
Source: Bloomberg				15-May-54		4.64	0.04							

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

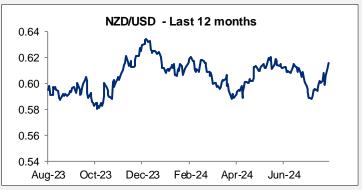
NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells
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

NZD









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