

Research Markets Today

21 June 2024

Events Round-Up

- NZ: GDP (q/q%), Q1: 0.2 vs. 0.1 exp.
- UK: Bank of England Bank Rate (%), June: 5.25 vs. 5.25 exp.
- US: Initial jobless claims, wk to 15 June: 238 vs. 235 exp.
- US: Housing starts (m/m%), May: -5.5 vs. 0.7 exp.
- US: Building permits (m/m%), May: -3.8 vs. 0.7 exp.
- US: Phil. Fed business outlook, Jun: 1.3 vs. 5.0 exp.
- US: Current a/c balance (\$b): -238 vs. -207 exp.
- EC: Consumer confidence, Jun: -14.0 vs. 13.8 exp.

Good Morning

There has been plenty of news to digest but market movements have been well-contained. A string of softer US data releases didn't perturb the market, with US equities flat, US Treasury yields slightly higher and the USD broadly stronger. The BoE opened the door for a first rate cut this cycle in August while the Swiss National Bank cut rates again. NZ rates rose yesterday after NZ GDP showed a small increase and against a backdrop of higher global rates. The NZD is around 0.6125 while a weaker yen has pushed up NZD/JPY to fresh highs.

In terms of the global monetary policy easing cycle, the Swiss National Bank cut its policy rate for a successive meeting, down 25bps to 1.25%, which had only been about two-thirds priced by the market and where less than half of analysts polled expected a cut. Norway's central bank pushed out the timing of its first rate cut, saying that it will probably need to keep its policy rate steady until the end of the year, removing its signal for a possible September rate cut and making it a laggard in the easing cycle amongst European-based central banks.

The Bank of England left its policy rate unchanged as expected, with the same 7-2 vote split as the previous meeting, with two officials again voting to cut rates by 25bps. However, the Bank opened the door for a near-term rate cut, saying that the decision not to ease at this meeting was "finely balanced" for some MPC members. It added that "As part of the August forecast round, members of the Committee will consider all of the information available and how this affects the assessment that the risks from inflation persistence are receding". The market read the message as a "dovish hold" and priced in a greater probability of an August rate cut to over 60% from

just over 30% prior to the meeting. UK gilt yields were modestly lower across the curve against a modest increase across the euro area.

In the US there were six data releases and every single one of them were worse than expected, taking Citigroup's economic surprise index down to its lowest level in nearly two years. Initial jobless claims fell by only 5k last week to 238k, following the spike higher the previous week. Recent data show a more decisive lift in trend, with the four-week moving average up to its highest level since last September and the recent pick-up broadly based across States. Continuing claims rose 15k to 1.828m, showing positive momentum over the last couple of months. These data are consistent with other labour market indicators showing easing pressures, likely setting the unemployment rate on a higher trajectory than the Fed's view of no further increase this year.

US housing starts and permits fell in May by 5.5% and 3.8% respectively, taking them both to their lowest levels in about four years, indicating some pain being felt in the construction sector. In other second-tier releases, the Philadelphia Fed's business outlook indicator fell 4pts to 1.3 while the current account deficit widened.

The string of softer than expected releases pushed US Treasury yields lower, but the move wasn't sustained. Rates across the curve are currently up 2-3bps for the day. The 10-year rate is up 3bps to 4.25% but little changed from the NZ close, as rates pushed higher through the local trading session.

US equities are slightly weaker, but it's debatable whether this has been caused by the weaker data and higher rates or simply reflecting a pause for breath after their strong recent run, stretching valuation metrics and technical indicators. The S&P500 is currently down 0.2% to 5,478 after briefly trading at a fresh record high of 5,505 in early trading.

In currency markets, the 24-hour and overnight leaderboards show CHF as the worst performing major and NOK as the strongest, reflecting the policy announcements. Otherwise, the USD is broadly stronger, only slightly weaker against the CAD. GBP is modestly weaker at 1.2675, with no obvious hit from the dovish BoE update, given that the currency is only marginally weaker against EUR.

Broad USD strength and higher global rates see a weaker yen, with USD/JPY approaching 159, with recent soft yen momentum making it ripe for further possible intervention – the MoF soon needing to clean up the “spill” from the BoJ’s lack of policy action last week. Against USD strength, the yuan fell to a fresh low for the year, making a number of attention-grabbing headlines by the media, but the reality was that the PBoC set the reference rate just 0.05% weaker on the day and it continues to apply maximum pressure to stabilise the currency as best it can within the constraint of the 2% trading band limits.

The NZD and AUD haven’t performed too badly in the context of broad USD strength, as they show only small losses – the NZD down slightly to 0.6125 and the AUD down slightly to 0.6660 and both currencies showing gains against EUR, GBP and JPY. NZD/JPY is at a fresh 17-year high of 97.3. NZD/AUD has tracked mostly just under 0.92 over the past 24 hours, showing little sustained movement after NZ GDP figures.

NZ GDP rose 0.2% q/q in Q1, at the top end of market estimates and in line with the RBNZ’s estimate. While positive, the small growth impulse was against a backdrop of strong population growth, seeing annual GDP per capita growth at a dreadful minus 2.4%. The positive figure also raised the chance of a larger contraction in the current quarter, with the PSI/PMI composite guiding towards worsening conditions and a very poor outcome.

The market was positioned for a very weak GDP print, with overseas traders in particular prepared to bet on a chance of the RBNZ capitulating and delivering easier policy over coming months. They were likely disappointed and rates lifted after the announcement, with higher US and Australian rates during the afternoon adding to the rates market selloff. Against this backdrop, the NZDM bond tender had weak interest, with low bid-cover ratios across

the three lines on offer and rates moving higher after the event. NZGB yields finished the day up 5-6bps across the curve, while swap yields were 5-7bps higher, with a steepening bias. The OIS market prices 32bps of RBNZ rate cuts through to the November meeting, paring about 3bps of easing post-GDP.

On the calendar today, Japan CPI data will be of interest, ahead of a possible rate hike next month, and where the market continues to see inflation tracking above target on all key measures. PMI data across Europe and the US are released tonight.

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Coming Up

		Period	Cons.	Prev.	NZT
UK	GfK consumer confidence	Jun	-16	-17	11:01
JN	CPI (y/y%)	May	2.9	2.5	11:30
JN	CPI ex fr. food, energy (y/y%)	May	2.2	2.4	11:30
UK	Retail sales ex auto fuel (m/m%)	May	1.8	-2.0	18:00
GE	Manufacturing PMI	Jun	46.4	45.4	19:30
GE	Services PMI	Jun	54.4	54.2	19:30
EC	Manufacturing PMI	Jun	47.9	47.3	20:00
EC	Services PMI	Jun	53.4	53.2	20:00
UK	Manufacturing PMI	Jun	51.1	51.2	20:30
UK	Services PMI	Jun	53.0	52.9	20:30
CA	Retail sales ex auto (m/m%)	Apr	0.6	-0.6	00:30
US	US manufacturing PMI	Jun	51.0	51.3	01:45
US	US services PMI	Jun	54.0	54.8	01:45
US	Existing home sales (m/m%)	May	-1.1	-1.9	02:00

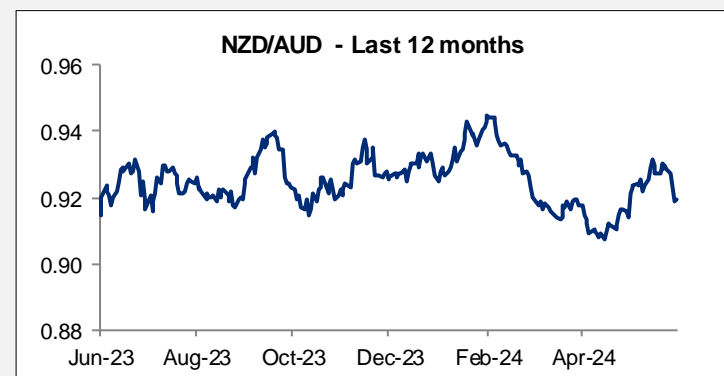
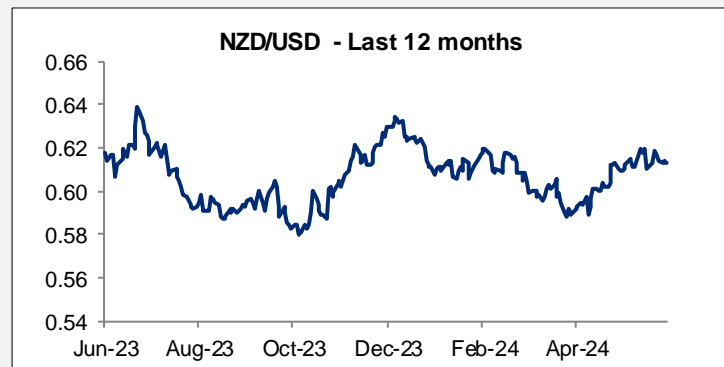
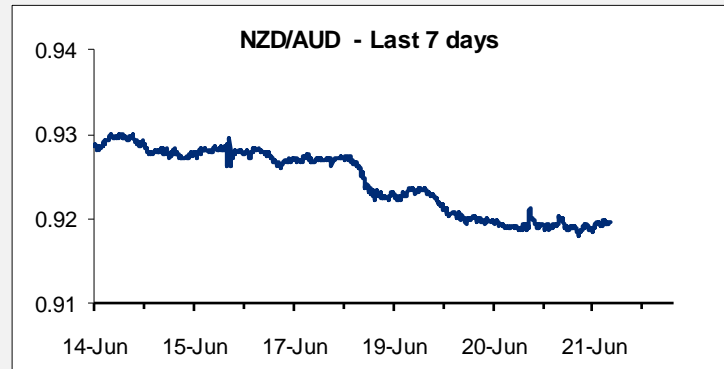
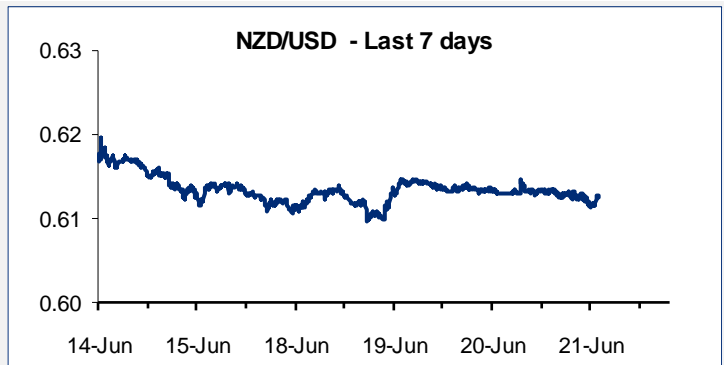
Source: Bloomberg, BNZ

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	0.6126	-0.1	0.6112	0.6137	CHF	0.8909	+0.8	S&P 500	5,478	-0.2	24.2	Oil (Brent)	85.88	+1.0	
AUD	0.6662	-0.2	0.6648	0.6679	SEK	10.494	+0.5	Dow	39,224	+1.0	14.4	Oil (WTI)	82.17	+0.9	
EUR	1.0712	-0.3	1.0704	1.0736	NOK	10.546	-0.2	Nasdaq	17,731	-0.7	29.5	Gold	2353.8	+1.0	
GBP	1.2673	-0.4	1.2659	1.2715	HKD	7.804	-0.0	Stoxx 50	4,948	+1.3	13.9	HRC steel	720.0	-1.6	
JPY	158.83	+0.5	158.06	158.91	CNY	7.260	+0.0	FTSE	8,272	+0.8	9.3	CRB	295.7	+0.9	
CAD	1.3689	-0.1			SGD	1.354	+0.2	DAX	18,254	+1.0	13.3	Wheat Chic.	584.5	-2.4	
NZD/AUD	0.9195	+0.1			IDR	16,430	+0.4	CAC 40	7,671	+1.3	5.2	Sugar	18.89	-0.2	
NZD/EUR	0.5719	+0.2			THB	36.74	+0.2	Nikkei	38,633	+0.2	15.1	Cotton	70.85	-0.2	
NZD/GBP	0.4834	+0.2			KRW	1,385	+0.2	Shanghai	3,005	-0.4	-6.0	Coffee	230.4	+1.8	
NZD/JPY	97.30	+0.4			TWD	32.33	-0.0	ASX 200	7,769	-0.0	6.2	WM powder	3125	+0.0	
NZD/CAD	0.8386	-0.2			PHP	58.77	+0.0	NZX 50	11,772	+0.9	0.0	Australian Futures			
NZ TWI	72.41	+0.0						VIX Index	13.21	+5.8	-2.4	3 year bond	96.12	-0.02	
Interest Rates															
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	5.50	5.61	4.56	3.85	USD	4.25	0.03	15-May-26	4.79	0.05	BKBM 1-mth	5.60	0.00		
AUD	4.35	4.38	4.20	4.39	AUD	4.20	0.02	15-Apr-27	4.58	0.05	BKBM 3-mth	5.61	0.00		
NZD	5.50	5.61	4.93	4.43	NZD	4.59	0.05	15-May-28	4.48	0.05	1 year	5.39	0.03		
EUR	3.75	3.71	3.21	2.76	GER	2.43	0.03	20-Apr-29	4.44	0.05	2 year	4.93	0.05		
GBP	5.25	5.30	4.45	3.75	GBP	4.06	-0.01	15-May-30	4.45	0.05	3 year	4.65	0.06		
JPY	0.08	-0.03	0.37	0.98	JPY	0.96	0.03	15-May-31	4.48	0.05	5 year	4.41	0.07		
CAD	4.75	4.96	4.18	3.60	CAD	3.34	0.05	15-May-32	4.53	0.05	7 year	4.38	0.07		
							NZ Inflation-Indexed Bonds		14-Apr-33	4.55	0.05	10 year	4.43	0.07	
							Sep-30	2.21	0.03	15-May-34	4.59	0.05	15 year	4.56	0.07
							Sep-35	2.52	0.02	15-May-35	4.65	0.05			
							Sep-40	2.72	0.02	15-May-37	4.76	0.05			
										15-May-41	4.90	0.05			
										15-May-51	4.91	0.06			
										15-May-54	4.94	0.06			

* These are indicative r 06:58
 please confirm rates with your BNZ dealer
 Rates are as of: NZT
 Source: Bloomberg

NZD exchange rates

21/06/2024 6:58 am		Prev. NY close
USD	0.6126	0.6133
GBP	0.4834	0.4822
AUD	0.9195	0.9191
EUR	0.5719	0.5708
JPY	97.30	96.96
CAD	0.8386	0.8407
CHF	0.5458	0.5423
DKK	4.2652	4.2576
FJD	1.3739	1.3847
HKD	4.7810	4.7880
INR	51.24	51.18
NOK	6.4604	6.4806
PKR	170.49	169.36
PHP	36.01	36.04
PGK	2.3543	2.3561
SEK	6.4288	6.4033
SGD	0.8293	0.8284
CNY	4.4477	4.4508
THB	22.53	22.49
TOP	1.4200	1.4148
VUV	73.69	73.80
WST	1.6563	1.6651
XPF	68.08	67.83
ZAR	11.0145	11.0118



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.14	0.17
3 Months	-0.28	0.23
6 Months	-1.68	-0.94
9 Months	-4.51	-2.51
1 Year	-8.01	-5.00

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-8.11	-7.43
3 Months	-23.81	-22.61
6 Months	-44.39	-42.12
9 Months	-60.59	-55.74
1 Year	-73.44	-65.04

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