

Research Markets Today

22 January 2025

Events Round-Up

NZ: Performance of services index, Dec: 47.9 vs. 49.1 prev.

NZ: Card spending (m/m%), Dec: 1.5 vs. -0.1 prev.

UK: Unemployment rate (%), Nov: 4.4 vs. 4.4 exp.

UK: Wkly earnings ex bonus (3m/y%), Nov: 5.6 vs. 5.5 exp.

CA: CPI (y/y%), Dec: 1.8 vs. 1.9 exp.

CA: CPI core (avg med./trim y/y%), Dec: 2.45 vs. 2.45 exp.

Good Morning

On day 1 of Trump's presidency the market got a taste of things to come over the next four years, with some off-the-cuff comments during a signing of executive orders that jolted the market. When asked by a reporter about tariffs he said he was thinking in terms of 25% tariffs on Mexico and Canada and "I'll think we'll do it on February 1st". In the hours ahead of his inauguration his advisors were feeding reporters that tariffs would be enacted in a managed way so this comment was surprising. It isn't clear whether Canada and Mexico can stave off tariffs by negotiation over the next week or so. One positive factor though to come on day 1 was that China doesn't seem to be in the crossfire for tariffs immediately and Trump said he wasn't considering an immediate universal tariff.

Canada PM Trudeau said his country would respond if Trump pressed ahead with tariffs, saying he's open to matching the tariffs on the Canadian side "dollar for dollar" while Mexico's President called for a cool head. At the World Economic Forum in Davos, China's Vice Premier Ding Xuexiang said "we don't see trade surplus...we want to import more competitive, quality products and services to promote balanced trade", a line which would be music to the ears of Trump.

The FT's lead article is about Trump threatening a tax war over US multinationals after he signed an executive order withdrawing US support for a global tax pact agreed at the OECD last year that allows other countries to levy top-up taxes on US multinationals. The article goes on to say "one senior EU official said Trump's billionaire technology entrepreneurs were pushing him to act on tax rather than trade." If true, any watering down of Trump's tariff agenda would be positive for currencies like the NZD that have been whacked recently ahead of expected tariffs.

Today, Trump is meeting with congressional leaders to discuss the Republican legislative agenda and will also make a major infrastructure announcement. The White House Press Secretary said "I can assure you that it's going to be a massive announcement, and it's going to prove that the world knows that America is back".

Turning to the market the S&P500 is up 0.8% in early afternoon trading, strongly recovering from the hit to the futures market yesterday when Trump threw that curve ball on tariffs against Canada and Mexico.

The US 10-year rate is 4.58%, up 5bps from the NZ close but down 5bps from Friday's close, ahead of the public holiday in the US. The curve is flatter, with the 2-year rate up marginally from Friday's close.

The USD is on the soft side of the ledger overnight. The CAD weakened as much as 1½% to a fresh 5-year low after Trump's "thinking" of a 25% tariff but it has since fully unwound the move. Imposing an immediate 25% tariff would be an illogical move that would whack US manufacturers which rely on Canadian inputs into their production and the market believes the move is unlikely. From a peak around 1.4515, USD/CAD is back down to 1.4330. NZD/CAD traded a high of 0.8180 yesterday and is back down to 0.8120.

Canadian CPI inflation data were close to market expectations, with the headline measure down a tick to 1.8% y/y and the average of the median and trimmed mean core measures nudging down to 2.45%, as expected.

The Mexican peso, also whacked yesterday, has clawed back most of its loss, but not fully. The NZD fell about 60 pips to 0.5620 on Trump's tariff comment, before recovering most of the move and it currently sits at 0.5665. The NZD is flat to slightly weaker on the key crosses. There was little market reaction following UK labour market data which showed a tick up in the unemployment rate to 4.4% and a lift in wage inflation, expected to be short-lived. NZD/GBP has traded mostly just below 0.46.

The overnight GDT dairy auction showed a 1.4% gain in the price index. Whole milk powder was the largest gainer, up 5.0%, while skim milk powder rose 2.0%.

The domestic rates market showed declining yields across the curve, driven by mostly global forces as US Treasuries rallied from the Asian open. NZGB yields fell 6-8bps across

the curve. Swap rates showed a similar move, down 6-7bps ahead of today's CPI release. The consensus sees annual headline inflation falling to 2.1% y/y, its lowest level in nearly four years. We see slight upside risk to that, but nothing in it to concern the RBNZ. The market will be keeping an eye on further executive orders today from President Trump and the "massive" announcement on infrastructure.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	CPI (q/q%)	Q4	0.5	0.6	10:45
NZ	CPI (y/y%)	Q4	2.1	2.2	10:45
NZ	CPI non tradeable (q/q%)	Q4	0.8	1.3	10:45
EC	ECB's Lagarde Speaks in Davos				04:05

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	0.5665	-0.1	0.5617	0.5671	CHF	0.9072	+0.1	S&P 500	6,041	+0.7	24.8	Oil (Brent)	79.12	-1.3
AUD	0.6268	-0.1	0.6214	0.6275	SEK	10.995	-0.2	Dow	43,939	+1.0	16.0	Oil (WTI)	76.06	-2.3
EUR	1.0422	+0.1	1.0342	1.0430	NOK	11.306	+0.1	Nasdaq	19,761	+0.7	29.1	Gold	2757.1	+0.3
GBP	1.2327	-0.0	1.2230	1.2335	HKD	7.786	+0.1	Stoxx 50	5,166	+0.0	16.1	HRC steel	691.0	-0.6
JPY	155.57	-0.0	155.25	156.05	CNY	7.262	-0.2	FTSE	8,548	+0.3	14.6	CRB	311.1	-0.1
CAD	1.4336	+0.2			SGD	1.352	-0.3	DAX	21,042	+0.2	27.1	Wheat Chic.	569.5	+3.4
NZD/AUD	0.9038	-0.0			IDR	16,343	-0.1	CAC 40	7,771	+0.5	5.4	Sugar	17.79	-2.4
NZD/EUR	0.5436	-0.2			THB	33.94	-0.5	Nikkei	39,028	+0.3	6.8	Cotton	67.70	+0.1
NZD/GBP	0.4596	-0.1			KRW	1,436	-0.3	Shanghai	3,243	-0.1	17.6	Coffee	328.1	-0.1
NZD/JPY	88.13	-0.1			TWD	32.75	-0.1	ASX 200	8,402	+0.7	12.4	WM powder	3880	+0.0
NZD/CAD	0.8121	+0.0			PHP	58.48	-0.1	NZX 50	13,053	-0.3	11.7	Australian Futures		
NZ TWI	67.84	-0.2						VIX Index	15.20	-3.9	+14.3	3 year bond	96.14	0.06
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	4.50	4.85	4.15	4.13	USD	4.58	-0.05	15-Apr-27	3.70	-0.06	BKBM 1-mth	4.35	-0.01	
AUD	4.35	4.33	3.91	4.46	AUD	4.40	-0.07	15-May-28	3.83	-0.07	BKBM 3-mth	4.06	0.00	
NZD	4.25	4.06	3.55	4.15	NZD	4.66	-0.08	20-Apr-29	3.96	-0.07	1 year	3.63	-0.03	
EUR	3.00	2.68	2.34	2.47	GER	2.51	-0.02	15-May-30	4.10	-0.08	2 year	3.55	-0.06	
GBP	4.75	5.30	4.22	4.09	GBP	4.59	-0.07	15-May-31	4.26	-0.08	3 year	3.60	-0.06	
JPY	0.23	-0.03	0.69	1.12	JPY	1.19	-0.01	15-May-32	4.41	-0.08	5 year	3.77	-0.07	
CAD	3.25	4.97	2.80	3.03	CAD	3.26	-0.02	14-Apr-33	4.51	-0.08	7 year	3.94	-0.07	
								15-May-34	4.58	-0.08	10 year	4.15	-0.07	
								15-May-35	4.66	-0.08	15 year	4.39	-0.07	
								15-May-36	4.75	-0.08				
								15-May-37	4.84	-0.08				
								15-May-41	5.04	-0.07				
								15-May-51	5.20	-0.07				
								15-May-54	5.21	-0.07				

* 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

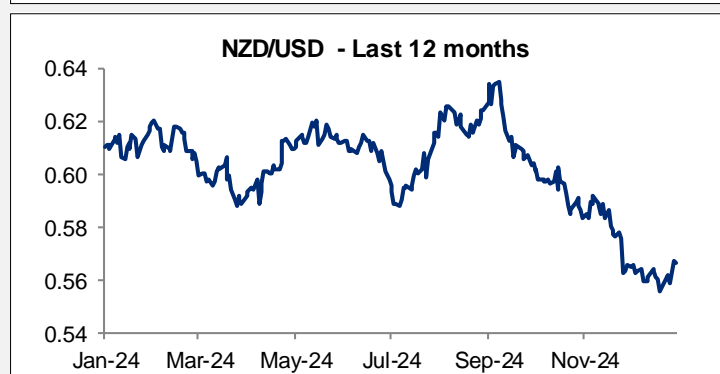
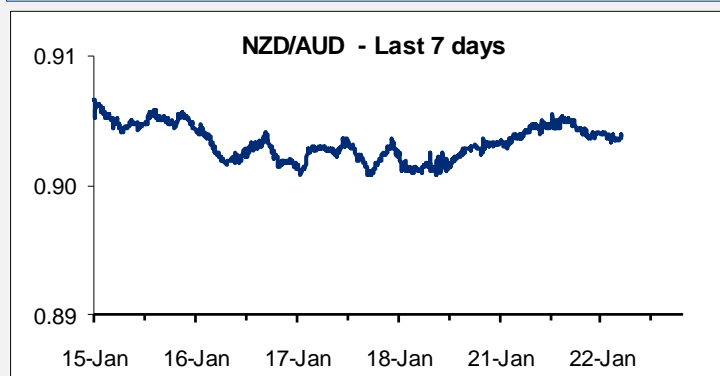
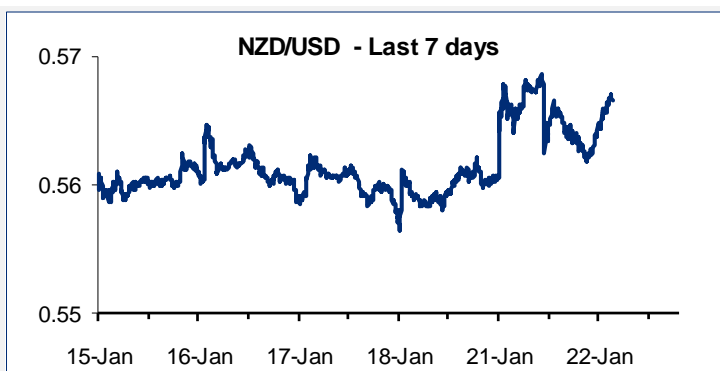
22/01/2025 6:59 am		Prev. NY close
USD	0.5665	0.5672
GBP	0.4596	0.4601
AUD	0.9038	0.9039
EUR	0.5436	0.5445
JPY	88.13	88.27
CAD	0.8121	0.8117
CHF	0.5139	0.5143
DKK	4.0559	4.0629
FJD	1.3147	1.3218
HKD	4.4105	4.4130
INR	49.05	49.10
NOK	6.4048	6.4085
PKR	157.78	158.17
PHP	33.13	33.19
PGK	2.2715	2.2743
SEK	6.2287	6.2517
SGD	0.7661	0.7694
CNY	4.1211	4.1253
THB	19.32	19.45
TOP	1.3598	1.3824
VUV	69.25	71.12
WST	1.5848	1.5964
XPF	65.52	65.64
ZAR	10.4747	10.5153

NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	0.96	1.36
3 Months	6.88	7.37
6 Months	18.95	19.97
9 Months	31.64	33.63
1 Year	44.90	47.90

NZD/AUD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	1.18	2.05
3 Months	8.18	9.38
6 Months	22.06	24.75
9 Months	36.18	41.37
1 Year	49.97	57.77



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