

Research Markets Today

22 July 2024

Events Round-Up

UK: GfK consumer confidence, Jul: -13 vs. -12 exp.

JN: CPI (y/y%), Jun: 2.8 vs. 2.9 exp.

JN: CPI ex fr. food, energy (y/y%), Jun: 2.2 vs. 2.2 exp.

UK: Retail sales ex auto fuel (m/m%), Jun: -1.5 vs. -0.5 exp.

CA: Retail sales ex auto (m/m%), May: -1.3 vs. -0.5 exp.

Good Morning

Financial markets ended last week on a soft note, with weaker global equity markets, higher global rates and lower commodity prices. Volumes were light, as trading activity was restricted by the global IT outage that affected Microsoft Windows systems. Against a backdrop of weaker risk appetite, the USD was broadly stronger, and the NZD closed the week at a two-month low around 0.6010. In breaking news, President Biden said he is dropping out of the Presidential race.

Risk appetite fell last week, with our index closing just over the 60% mark, its lowest level since November. US equities fell for a third consecutive day, with the S&P500 down 0.7%, taking the fall for the week to 2%. The tech-heavy Nasdaq underperformed, down 0.8% on the day and falling 3.6% for the week. The Russell 2000 index also fell on the day, down 0.6%, but the strong gain earlier in the week left it up 1.7%, a second week of strong outperformance, reflecting the rotation out of the mega-cap stocks and into smaller cap stocks, in anticipation of the Fed easing cycle commencing.

There were no obvious reasons for the fall in risk appetite on Friday, but for the week overall, one might point to the market beginning to price in a Trump victory, nerves on IT stocks ahead of earnings reports or simply investors deciding to buy some protection after a strong rally in risk assets.

The economic data flow was light. Ahead of the Bank of Canada's meeting this week, Canadian retail sales figures were weaker than expected, alongside downward revisions to prior data. Sales fell 0.8% m/m in May and an advanced estimate for June showed a 0.3% fall, while the ex-autos measure fell 1.3% m/m. The Bank of Canada is widely expected to cut its policy rate by another 25bps to 4.50% and the move is almost fully priced.

UK retail sales for June were also weaker than expected, with the ex-autos measure showing a 1.5% m/m fall in spending volumes, with bad summer weather a possible factor.

Japan annual CPI inflation was steady at 2.8% but that made it 27 months in a row of inflation above the 2% target. Annual inflation on the CPI excluding fresh food and energy index ticked up to 2.2%, making it 21 months in a row of above 2% inflation on that measure. Above-target inflation and accelerating wage inflation give the BoJ no good reason to leave monetary policy ultra-easy. Excuses to keep rates low ran out some time ago and questions around its independence will be increasingly raised if it doesn't tighten monetary policy, with the next available opportunity at the end of the month.

US Treasury yields were up about 4bps across much of the curve, with the 10-year rate closing at 4.24%, capping off a low-vol week where the low-high range was just 10bps and with the high reached towards the end of the week. European 10-year rates were also up about 4bps on the day, while the UK 10-year gilt was 6bps higher.

In currency markets, the USD was broadly stronger, but gains were small, although the NZD was a notable underperformer again, down 0.6% on Friday, taking its weekly loss to 1.8%. The currency closed around a two-month low of 0.6010. The technical picture looks weak and, while there looks to be some support around 0.60, the April lows just below 0.59 are also on the radar – the combination of weaker risk appetite and the RBNZ's recent dovish pivot provide significant headwinds.

NZD/AUD had its lowest weekly close since October 2022, ending at 0.8990. NZD/GBP closed at an 11-month low just over 0.4650.

The domestic rates market showed steeper curves, with lingering downward pressure on short-term yields and upside pressure on longer term rates. The 2-year swap rate fell 3bps to 4.34%, taking its fall since the RBNZ's dovish pivot to 47bps. The 10-year swap rate rose 3bps to 4.15%. NZ bonds continued to outperform on a cross-market basis, with the 10-year rate up 3bps to 4.37%, and the spread to Australia fast closing in towards zero.

The economic calendar contains only second-tier data for the day ahead, with NZ trade data, euro area consumer confidence and US existing home sales. The calendar for

the week ahead is light, with the only key releases being global PMIs, US Q2 GDP and US PCE deflator data. As noted, the Bank of Canada meets.

As we go to print, President Biden released a statement on social media that he is dropping out of the Presidential race. More details will follow later in the week, but he did not immediately endorse VP Harris or another candidate to be the Democratic nominee. This muddies the outlook to the extent that the odds of Trump winning the election immediately reduce after he was looking like a shoo-in, given recent momentum and facing Biden as the opponent. At the margin we could see a small unwind of

the “Trump trade” that was beginning to be priced over the last couple of weeks.

jason.k.wong@bnz.co.nz

Coming Up

	Period	Cons.	Prev.	NZT
NZ Trade balance (annual \$b)	Jun		-10.1	10:45
EC Consumer confidence	Jul	-13.5	-14.0	02:00
US Existing home sales (m/m%)	Jun	-3.0	-0.7	02:00

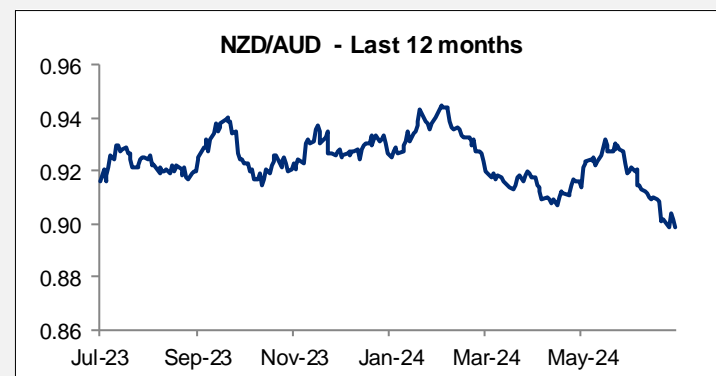
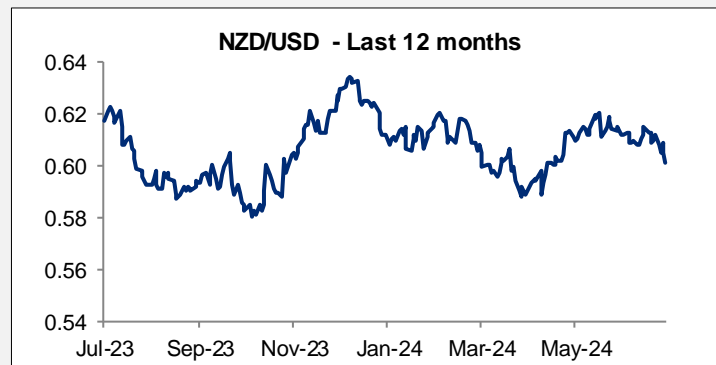
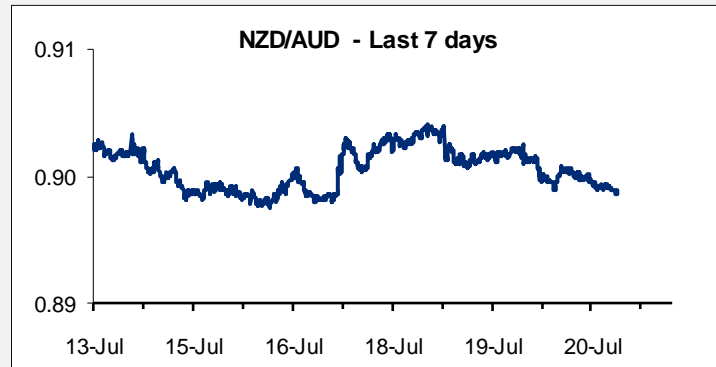
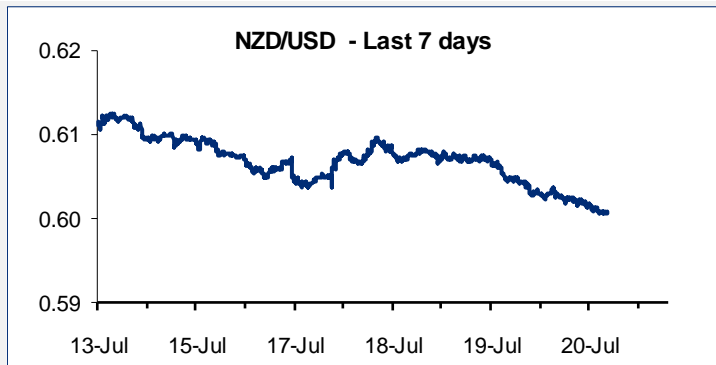
Source: Bloomberg, BNZ

Currencies						Equities				Commodities							
Global froces		Indicative overnight ranges (*)			Other FX		Major Indices				Price (Near futures, except CRB)						
	Last	% Day	Low	High	Last	% Day	Last	% Day	% Year	Last	Net Day						
NZD	0.6009	-0.6	0.6006	0.6040	CHF	0.8889	+0.1	S&P 500	5,505	-0.7	21.4	Oil (Brent)	82.63	-2.9			
AUD	0.6685	-0.3	0.6680	0.6708	SEK	10.679	+0.8	Dow	40,288	-0.9	14.4	Oil (WTI)	80.13	-3.2			
EUR	1.0883	-0.1	1.0876	1.0894	NOK	10.916	+1.0	Nasdaq	17,727	-0.8	26.3	Gold	2399.1	-2.3			
GBP	1.2913	-0.2	1.2901	1.2942	HKD	7.811	+0.0	Stoxx 50	4,827	-0.9	9.9	HRC steel	657.0	-0.3			
JPY	157.50	+0.1	156.96	157.70	CNY	7.270	+0.1	FTSE	8,156	-0.6	6.4	CRB	280.4	-1.8			
CAD	1.3730	+0.2			SGD	1.345	+0.1	DAX	18,172	-1.0	12.3	Wheat Chic.	568.0	+1.4			
NZD/AUD	0.8989	-0.3			IDR	16,191	+0.2	CAC 40	7,535	-0.7	1.4	Sugar	18.66	-1.5			
NZD/EUR	0.5521	-0.5			THB	36.33	+0.6	Nikkei	40,064	-0.2	24.0	Cotton	69.98	-1.9			
NZD/GBP	0.4653	-0.3			KRW	1,391	+0.5	Shanghai	2,982	+0.2	-5.9	Coffee	238.2	-1.1			
NZD/JPY	94.63	-0.5			TWD	32.75	+0.4	ASX 200	7,972	-0.8	9.0	WM powder	3030	+0.5			
NZD/CAD	0.8250	-0.4			PHP	58.33	+0.1	NZX 50	12,326	-0.0	3.2	Australian Futures					
NZ TWI	70.79	-0.4						VIX Index	16.52	+3.7	+21.5	3 year bond	96.03	-0.02			
Interest Rates						Benchmark 10 Yr Bonds			NZ Government Bonds			NZ BKBM and Swap Yields					
Rates		Swap Yields			Last		Net Day		Last		Chg		Last		Chg		
	Cash	3Mth	2 Yr	10 Yr													
USD	5.50	5.54	4.33	3.80	USD	4.24	0.04	15-May-26	4.40	-0.01		BKBM 1-mth	5.60	0.00			
AUD	4.35	4.47	4.21	4.44	AUD	4.28	0.05	15-Apr-27	4.18	-0.01		BKBM 3-mth	5.54	0.00			
NZD	5.50	5.54	4.34	4.15	NZD	4.37	0.03	15-May-28	4.08	-0.01		1 year	4.93	-0.03			
EUR	3.75	3.69	3.06	2.73	GER	2.47	0.04	20-Apr-29	4.07	0.00		2 year	4.34	-0.02			
GBP	5.25	5.30	4.39	3.83	GBP	4.12	0.06	15-May-30	4.13	0.00		3 year	4.08	-0.01			
JPY	0.08	-0.03	0.42	1.01	JPY	1.04	0.00	15-May-31	4.20	0.01		5 year	3.97	0.00			
CAD	4.75	4.97	3.73	3.32	CAD	3.40	0.02	15-May-32	4.28	0.02		7 year	4.03	0.02			
						NZ Inflation-Indexed Bonds			14-Apr-33	4.34	0.03		10 year	4.15	0.03		
						Sep-30	2.17	0.00	15-May-34	4.37	0.03		15 year	4.29	0.03		
						Sep-35	2.45	0.01	15-May-35	4.42	0.02						
						Sep-40	2.69	0.00	15-May-37	4.54	0.02						
									15-May-41	4.70	0.02						
									15-May-51	4.74	0.02						
									15-May-54	4.76	0.03						

* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer
 Rates at NY close
 Source: Bloomberg

NZD exchange rates

20/07/2024	NY close	Prev. NY close
USD	0.6009	0.6045
GBP	0.4653	0.4670
AUD	0.8989	0.9014
EUR	0.5521	0.5547
JPY	94.63	95.13
CAD	0.8250	0.8285
CHF	0.5342	0.5366
DKK	4.1211	4.1391
FJD	1.3503	1.3612
HKD	4.6944	4.7212
INR	50.28	50.57
NOK	6.5603	6.5319
PKR	167.38	168.35
PHP	35.07	35.21
PGK	2.3196	2.3331
SEK	6.4183	6.4056
SGD	0.8085	0.8124
CNY	4.3692	4.3899
THB	21.80	21.74
TOP	1.3870	1.3941
VUV	72.01	72.34
WST	1.6354	1.6378
XPF	65.88	66.22
ZAR	10.9778	11.0372



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.20	0.11
3 Months	-0.43	0.20
6 Months	0.19	1.19
9 Months	0.37	5.43
1 Year	2.64	5.64

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-7.60	-6.93
3 Months	-20.15	-18.56
6 Months	-30.92	-28.13
9 Months	-34.81	-25.30
1 Year	-31.20	-22.57

Contact Details

BNZ Research

Stephen Toplis

Head of Research
+64 4 474 6905

Doug Steel

Senior Economist
+64 4 474 6923

Jason Wong

Senior Markets Strategist
+64 4 924 7652

Stuart Ritson

Senior Interest Rate Strategist
+64 9 9248601

Mike Jones

BNZ Chief Economist
+64 9-956 0795

Main Offices

Wellington

Level 2, BNZ Place
1 Whitmore Street
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

Auckland

80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

Christchurch

111 Cashel Street
Christchurch 8011
New Zealand
Toll Free: 0800 854 854

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