

Research Markets Today

23 July 2024

Events Round-Up

NZ: Trade balance (annual \$b), Jun: -9.4 vs. -10.2 prev.

CH: PBoC 7-day reverse repo rate (%), Jul: 1.7 vs. 1.8 prev.

Good Morning

Market reaction to President Biden's withdrawal from the Presidential race has been muted, with only small changes in the USD and Treasury yields. US equities have rebounded, recovering from last week's hiccup, driven by the tech sector. The AUD and NZD have underperformed on China concerns and falling industrial commodity prices. The NZD has made a clear break below 0.60, while NZD/AUD is up slightly, back to 0.90.

With a quiet economic calendar, the market was focused on President Biden's withdrawal from the Presidential race, just ahead of the Monday morning opening. Initial market reaction was muted across assets on the watchlist. VP Harris is the clear frontrunner to win the Democrat nomination, winning endorsements from key party members, Governors and lawmakers, while donations on the day exceeded any other so far in the election campaign.

The market's reluctance to unwind much, if any, of recent price action on the Trump trade, reflected odds that still clearly favours a Trump victory. PredictIt odds of a Trump victory fell from 65% to 60%, still well ahead of the Democratic contender.

US equities have rebounded, with the tech sector leading the gains after the recent rotation out of these stocks. The tech-heavy Nasdaq index is up 1.7% against a 1.1% lift in the S&P500. Energy stocks have underperformed – one of the few Trump trades that looks in play – but the move might be coincidental, with oil prices backing up the 3% fall at the end of last week with another fall. Brent crude is down ½% to a six-week low of USD82.

US Treasury yields have pushed higher. The small fall in Asia trading reversed course during the US trading session, seeing the 10-year rate up 2bps to 4.26% or 4bps from the NZ close. The curve is marginally steeper but within the realms of rounding error.

Outside of US politics, key news was the PBoC easing monetary policy further, cutting its 7-day reverse repo rate by 10bps to 1.7%, which directly flowed through into cuts

for the 1-yr and 5-year loan prime rates. The PBoC said it wanted to “step up financial support for the real economy”. The move follows last week's economic data showing softer GDP growth, weighed down by the property market and consumer spending. Easier monetary policy in China so far has been ineffective this cycle, given the extent of the property downturn, and with the PBoC reluctant to cut rates aggressively to avoid further downward pressure on the yuan.

Industrial metal prices continue to tumble, with Bloomberg's price index of these down 1½%, falling for a sixth consecutive day, and down over 7% over that short time frame. The outcome of China's Third Plenum – a major policy meeting meant to set economic and policy priorities for the next five years – was widely seen as disappointing, with a lack of further policy initiatives to address the property slump or reinvigorate the economy.

Weaker commodity prices have dragged down the AUD and NZD, with notable underperformances by both against a backdrop of only small moves in the other key majors. Relative to last week's close, the AUD is down 0.6% to 0.6640 while the NZD is down 0.5% to 0.5980, with NZD/AUD up slightly to 0.90. Yesterday we noted the poor technicals for the NZD and the break of 0.60 brings the April low near 0.5850 into play.

JPY is the strongest of the majors, somewhat surprisingly against the backdrop of slightly higher Treasury yields and uncertainty about whether the BoJ will deliver a rate hike next week. Bloomberg reported that BoJ officials see weakness in consumer spending complicating their decision over whether to raise interest rates at next week's policy meeting. “Some” officials see skipping a rate hike as an option to provide more time to examine incoming data to confirm if consumer spending will pick up as expected and “some” hold the position that the BoJ should avoid giving the impression of being overly hawkish. The article added that other officials are open to raising rates at the meeting. While the rates decision appears finely balanced, the central bank “doesn't intend to cause any major surprise” regarding its plans to reduce bond purchases.

USD/JPY is down 0.2% to just over 157 after falling to as low as 156.30 overnight. EUR and GBP are less than 0.1% higher from last week's close, so NZD crosses against these currencies are all lower. NZD/JPY is sub-94, NZD/EUR is sub 0.55 and NZD/GBP is probing fresh multi-year lows around 0.4625.

The Slovakian member of the ECB's Governing Council Kazimir said that market bets on two more ECB rate cuts this year aren't entirely misplaced, but shouldn't be taken as a given or a baseline scenario. He added that there is no need to rush decisions.

The domestic rates session was quiet yesterday, with some small upside pressure to rates. Swap yields were up 1-2bps, while NZGBs underperformed and showed some steepening curve price action, with short rates up 2bps, the 10-year rate up 3bps and the ultra long bonds up 5bps.

The economic calendar remains light, with only second-tier releases due tonight.

jason.k.wong@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
EC	Consumer confidence	Jul	-13.5	-14	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	0.5977	-0.5	0.5972	0.6004	CHF	0.8896	+0.1	S&P 500	5,570	+1.2	22.8	Oil (Brent)	82.41	-0.3		
AUD	0.6641	-0.7	0.6631	0.6668	SEK	10.722	+0.4	Dow	40,429	+0.3	14.8	Oil (WTI)	79.78	-0.2		
EUR	1.0890	+0.1	1.0873	1.0895	NOK	10.959	+0.4	Nasdaq	18,038	+1.8	28.5	Gold	2396.2	-0.1		
GBP	1.2924	+0.1	1.2906	1.2942	HKD	7.807	-0.0	Stoxx 50	4,897	+1.5	11.5	HRC steel	657.0	+0.0		
JPY	157.10	-0.2	156.35	157.17	CNY	7.274	+0.1	FTSE	8,199	+0.5	7.0	CRB	280.4	-1.8		
CAD	1.3750	+0.1			SGD	1.346	+0.0	DAX	18,407	+1.3	13.8	Wheat Chic.	573.0	+0.9		
NZD/AUD	0.9000	+0.1			IDR	16,220	+0.2	CAC 40	7,622	+1.2	2.5	Sugar	18.30	-1.9		
NZD/EUR	0.5489	-0.6			THB	36.31	-0.1	Nikkei	39,599	-1.2	22.6	Cotton	70.04	+0.1		
NZD/GBP	0.4625	-0.6			KRW	1,388	-0.2	Shanghai	2,964	-0.6	-6.4	Coffee	243.1	+2.0		
NZD/JPY	93.90	-0.8			TWD	32.87	+0.4	ASX 200	7,932	-0.5	8.4	WM powder	3030	+0.0		
NZD/CAD	0.8218	-0.4			PHP	58.39	+0.1	NZX 50	12,310	-0.1	3.1	Australian Futures				
NZ TWI	70.46	-0.4						VIX Index	14.83	-10.2	+9.0	3 year bond	96.02	-0.01		
Interest Rates												10 year bond			95.66	0.00
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	5.54	4.33	3.82	USD	4.26	0.02	15-May-26	4.42	0.02	BKBM 1-mth	5.59	-0.01			
AUD	4.35	4.47	4.20	4.45	AUD	4.31	0.02	15-Apr-27	4.20	0.02	BKBM 3-mth	5.55	0.00			
NZD	5.50	5.55	4.36	4.17	NZD	4.40	0.03	15-May-28	4.10	0.02	1 year	4.93	0.00			
EUR	3.75	3.70	3.10	2.75	GER	2.50	0.03	20-Apr-29	4.09	0.02	2 year	4.36	0.01			
GBP	5.25	5.30	4.45	3.87	GBP	4.16	0.04	15-May-30	4.16	0.02	3 year	4.10	0.02			
JPY	0.08	-0.03	0.43	1.02	JPY	1.06	0.01	15-May-31	4.23	0.02	5 year	3.99	0.02			
CAD	4.75	4.97	3.74	3.34	CAD	3.41	0.02	15-May-32	4.31	0.03	7 year	4.05	0.02			
						NZ Inflation-Indexed Bonds						10 year			4.17	0.02
						Sep-30	2.21	0.04	15-May-34	4.40	0.03	15 year	4.31	0.02		
						Sep-35	2.48	0.03	15-May-35	4.46	0.04					
						Sep-40	2.72	0.03	15-May-37	4.58	0.04					
									15-May-41	4.75	0.05					
									15-May-51	4.79	0.05					
									15-May-54	4.81	0.05					

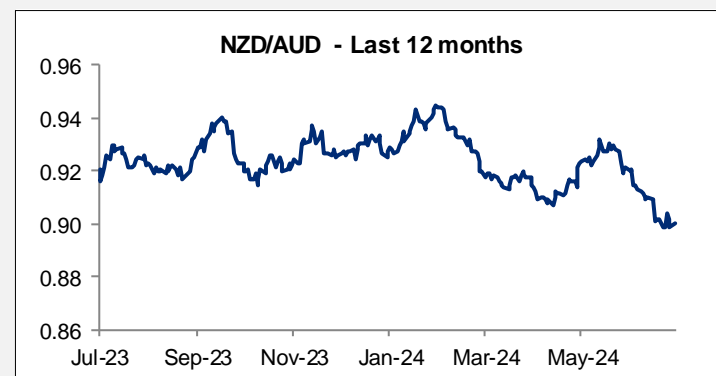
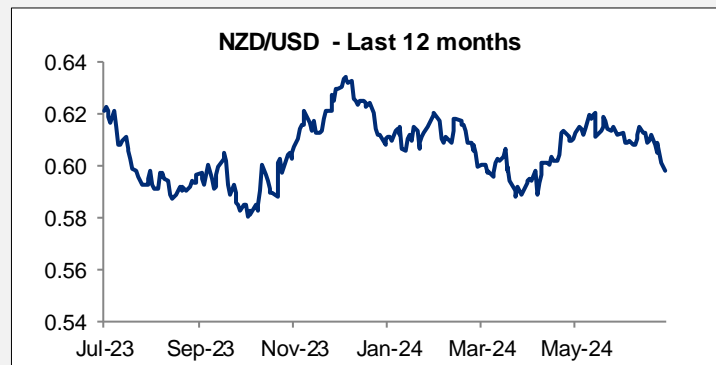
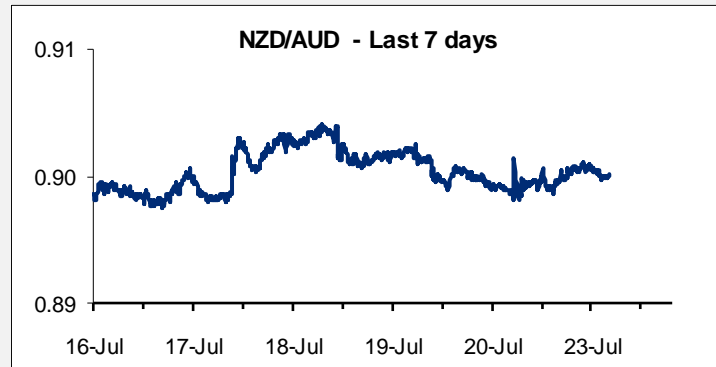
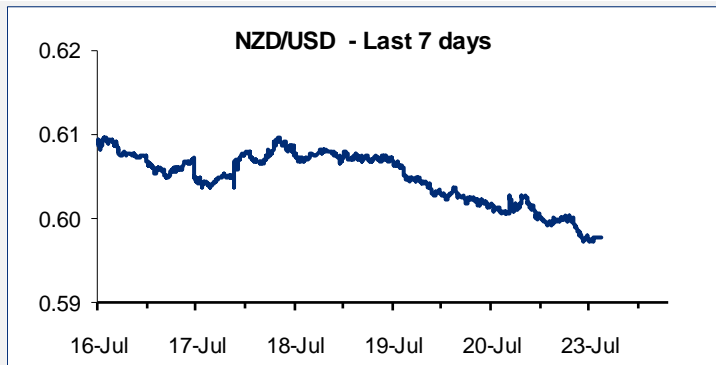
* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer

Rates are as of: NZT 06:55

Source: Bloomberg

NZD exchange rates

23/07/2024	6:54 am	Prev. NY close
USD	0.5977	0.6010
GBP	0.4625	0.4654
AUD	0.9000	0.8990
EUR	0.5489	0.5523
JPY	93.90	94.65
CAD	0.8218	0.8252
CHF	0.5317	0.5342
DKK	4.0954	4.1211
FJD	1.3422	1.3503
HKD	4.6665	4.6944
INR	50.01	50.28
NOK	6.5501	6.5603
PKR	166.34	167.38
PHP	34.90	35.07
PGK	2.3077	2.3196
SEK	6.4087	6.4183
SGD	0.8044	0.8085
CNY	4.3476	4.3692
THB	21.68	21.62
TOP	1.3991	1.3870
VUV	71.83	72.01
WST	1.6284	1.6354
XPF	65.50	65.88
ZAR	10.9117	10.9778



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.20	0.10
3 Months	-0.32	0.17
6 Months	0.94	1.94
9 Months	2.65	4.82
1 Year	5.15	8.15

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-7.96	-7.24
3 Months	-19.74	-18.55
6 Months	-29.58	-27.09
9 Months	-31.54	-26.43
1 Year	-27.50	-19.94

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

This document has been produced by Bank of New Zealand (BNZ). BNZ is a registered bank in New Zealand and is only authorised to offer products and services to customers in New Zealand.

Analyst Disclaimer: The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed.

BNZ maintains an effective information barrier between the research analysts and its private side operations. Private side functions are physically segregated from the research analysts and have no control over their remuneration or budget. The research functions do not report directly or indirectly to any private side function. The Research analyst might have received help from the issuer subject in the research report.

New Zealand: The information in this publication is provided for general information purposes only, and is a summary based on selective information which may not be complete for your purposes. This publication does not constitute any advice or recommendation with respect to any matter discussed in it, and its contents should not be relied on or used as a basis for entering into any products described in it. Bank of New Zealand recommends recipients seek independent advice prior to acting in relation to any of the matters discussed in this publication.

Any statements as to past performance do not represent future performance, and no statements as to future matters are guaranteed to be accurate or reliable.

Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever which may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

USA: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.