

Research Markets Today

23 May 2024

Events Round-Up

NZ: RBNZ official cash rate (%), May: 5.5 vs. 5.5 exp.

UK: CPI (y/y%), Apr: 2.3 vs. 2.1 exp.

UK: CPI core (y/y%), Apr: 3.9 vs. 3.6 exp.

US: Existing home sales (m/m%), Apr: -1.9 vs. 0.8 exp.

Good Morning

Global equity markets are modestly lower as investors look ahead to Nvidia's quarterly earnings that are published after the US close. The size and volatility of Nvidia makes it an important bellwether for the broader market. The FTSE100 fell 0.5%, its largest drop in more than a month, after stronger than expected inflation data reduced the prospect for rate cuts from the Bank of England (BOE). Global bond yields are higher, and the US dollar was marginally stronger against the majority of G10 currencies.

The FOMC minutes from the May meeting were slightly hawkish and revealed that many policy makers are uncertain about the extent to which monetary policy is restraining the economy. There was agreement that higher inflation prints in Q1, and signs of strong economic momentum, mean it would take longer than originally anticipated to gain confidence that inflation was returning sustainably to target. The minutes also noted a willingness from various participants to tighten policy further if warranted.

UK inflation declined less than expected in April despite falling energy prices. Headline CPI fell to a 2.3% annual rate. Although this was the lowest rate since mid-2021, and closer to the BOE's 2% inflation target, it was above consensus estimates for 2.1% increase. Annual core inflation decreased to 3.9%, from 4.2% in March, but was also above expectations.

The market significantly pared expectations for BOE rate cuts. There is now 38bps of easing priced for this year, down from 55bps ahead of the data. The first 25bps rate cut has been pushed out to November. Gilts yields rose sharply, led by the front end, which contributed to a flatter yield curve. 10-year gilts closed 10bps higher at 4.23%.

The sell-off in gilts led to higher US treasury yields in early European trade. 2-year yields increased 4bps to 4.87% and reached the session highs after the FOMC minutes.

However, the move higher in 10-year treasury yields reversed and are little changed at 4.43%. The US\$16 billion of 20-year bond supply saw reasonable demand despite yields dropping ahead of the auction.

In Japan, yields on 10-year JGBs reached 1% for the first time since 2012, set against the backdrop of expectations of tighter monetary policy, in part to support the yen. The Bank of Japan has recently reduced the size of its regular bond operations suggesting there may be less purchases ahead.

In currency markets the dollar was marginally stronger in offshore trade. The US dollar index is up close to 0.2%. In the major pairings, both the euro and yen were modestly weaker, the latter not gaining support from JGB yields trading at 12-year highs. The pound outperformed within the G10, and gained 0.3% against the US dollar, as investors reduced expectations for BOE rate cuts.

The RBNZ left the Official Cash Rate steady at 5.5% at the Monetary Policy Statement (MPS) yesterday. However, the bank strengthened its hawkish bias noting domestic inflation pressures, and even discussed a hike, before a consensus was reached to leave rates on hold. The Bank raised its modelled cash rate track, which now peaks at 5.65% in December, implying a greater probability of a rate hike, relative to the February Statement. We have pushed back our forecast for the first rate cut from November to next February in response.

NZD/USD spiked higher following the MPS reaching fresh 2-month highs near 0.6150. The NZD retraced after the initial spike and has declined towards 0.6100 in offshore trade. NZD/AUD remained supported and traded back up towards 0.9200. After trading to a high near 0.4835 post-RBNZ, NZD/GBP slipped below 0.4800 overnight.

NZ fixed income yields moved higher the local session yesterday reflecting the hawkish hold by the RBNZ. The sell-off was concentrated in the front end of the yield curve as the market reduced the amount of RBNZ rate cuts priced for this year. 2-year swap rates increased to 4.99%, up 9bps on the day, while 10-year rates closed up 5bps at 4.54%. 10-year government bonds increased 4bps to 4.67%.

New Zealand Debt Management are tendering NZ\$500 million of nominal NZGBs today split across Apr-29 (\$250m), May-32 (\$175m) and May-41 (\$75m). Australian 10-year bond futures are ~5bps higher in yield overnight, suggesting an upward bias to NZGB yields on the open.

NZ Q1 real retail sales are released today and are expected to remain weak after 8 consecutive quarterly declines. Later this evening, Global flash PMIs will be closely monitored. Recent data has indicated a pickup in activity in Europe and a cooling from strong growth in the US.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Retail Sales Ex Inflation (q/q/%)	1Q	-0.3	-1.9	10:45
GE	Germany Manufacturing PMI	May P	43.5	42.5	19:30
GE	Germany Services PMI	May P	53.5	53.2	19:30
EC	Eurozone Manufacturing PMI	May P	46.1	45.7	20:00
EC	Eurozone Services PMI	May P	53.6	53.3	20:00
UK	S&P UK Manufacturing PMI	May P	49.5	49.1	20:30
UK	S&P UK Services PMI	May P	54.7	55	20:30
US	Initial Jobless Claims	May 18	220	222	00:30
US	S&P US Manufacturing PMI	May P	49.9	50	01:45
US	S&P US Services PMI	May P	51.2	51.3	01:45
EC	Consumer Confidence	May P	-14.2	-14.7	02:00
US	New Home Sales	Apr	678.5	693	02:00

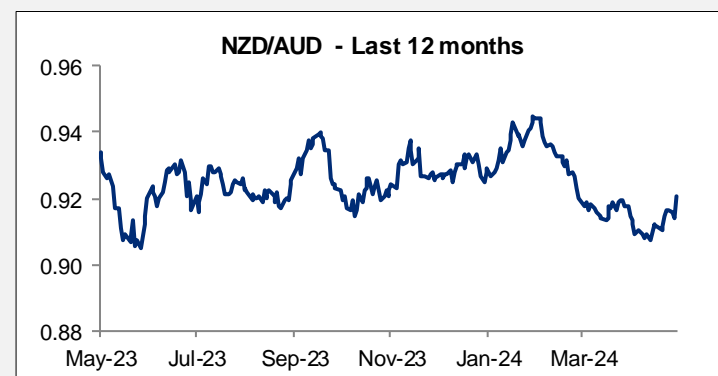
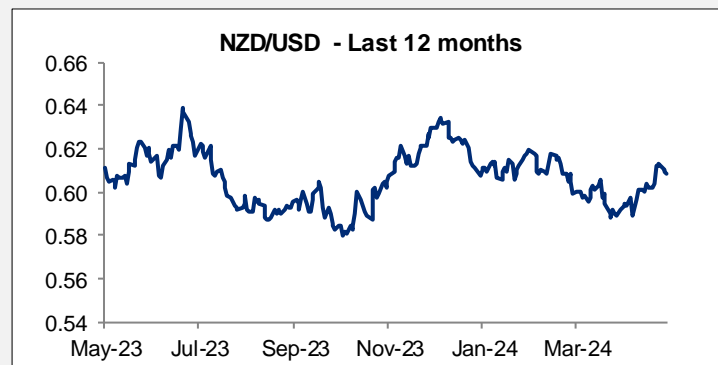
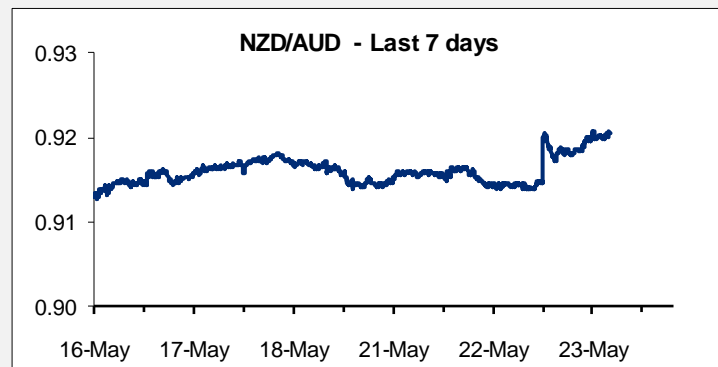
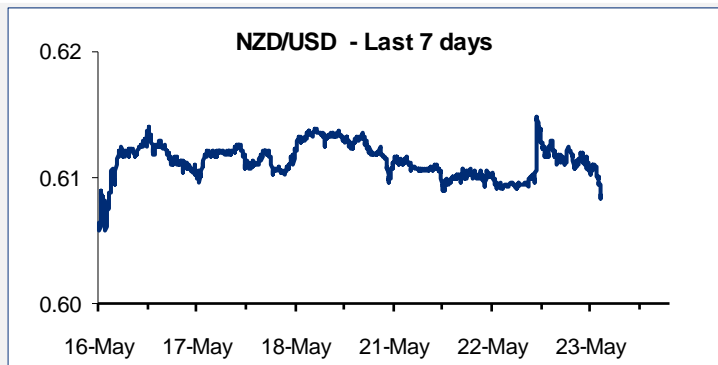
Source: Bloomberg, BNZ

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	0.6086	-0.1	0.6083	0.6125	CHF	0.9153	+0.5	S&P 500	5,288	-0.6	26.1	Oil (Brent)	81.83	-1.3		
AUD	0.6611	-0.8	0.6608	0.6667	SEK	10.753	+0.5	Dow	39,561	-0.7	18.9	Oil (WTI)	77.49	-1.5		
EUR	1.0821	-0.3	1.0818	1.0864	NOK	10.713	+0.4	Nasdaq	16,721	-0.6	31.4	Gold	2382.3	-1.8		
GBP	1.2712	+0.0	1.2700	1.2758	HKD	7.808	+0.0	Stoxx 50	5,025	-0.4	14.6	HRC steel	789.0	-0.3		
JPY	156.60	+0.3	156.35	156.63	CNY	7.241	+0.1	FTSE	8,370	-0.5	7.7	CRB	296.0	+0.1		
CAD	1.3695	+0.3			SGD	1.351	+0.3	DAX	18,680	-0.2	15.1	Wheat Chic.	714.3	-0.5		
NZD/AUD	0.9206	+0.7			IDR	15,995	-0.0	CAC 40	8,092	-0.6	8.2	Sugar	18.23	-1.8		
NZD/EUR	0.5624	+0.2			THB	36.49	+0.3	Nikkei	38,617	-0.8	24.7	Cotton	79.38	+3.9		
NZD/GBP	0.4788	-0.1			KRW	1,363	-0.0	Shanghai	3,159	+0.0	-2.7	Coffee	220.5	+1.5		
NZD/JPY	95.31	+0.2			TWD	32.28	-0.1	ASX 200	7,848	-0.0	8.1	WM powder	3220	+0.6		
NZD/CAD	0.8335	+0.2			PHP	58.06	-0.3	NZX 50	11,732	+0.5	-1.8	Australian Futures				
NZ TWI	71.75	+0.1						VIX Index	12.79	+7.8	-25.7	3 year bond	96.07	-0.04		
														10 year bond	95.70	-0.05
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	5.59	4.77	4.06	USD	4.43	0.01	15-May-26	4.77	0.07	BKBM 1-mth	5.60	0.00			
AUD	4.35	4.34	4.20	4.48	AUD	4.29	0.03	15-Apr-27	4.60	0.06	BKBM 3-mth	5.61	0.00			
NZD	5.50	5.61	4.99	4.54	NZD	4.68	0.04	15-May-28	4.55	0.06	1 year	5.43	0.08			
EUR	4.00	3.82	3.34	2.80	GER	2.53	0.04	20-Apr-29	4.52	0.06	2 year	4.99	0.09			
GBP	5.25	5.30	4.69	3.94	GBP	4.23	0.10	15-May-30	4.53	0.05	3 year	4.70	0.08			
JPY	0.08	-0.03	0.42	1.03	JPY	1.01	0.03	15-May-31	4.57	0.05	5 year	4.48	0.07			
CAD	5.00	5.26	4.53	3.91	CAD	3.60	0.03	15-May-32	4.62	0.05	7 year	4.47	0.06			
							NZ Inflation-Indexed Bonds			14-Apr-33	4.64	0.04	10 year	4.54	0.05	
							Sep-30	2.29	0.05	15-May-34	4.68	0.04	15 year	4.68	0.04	
							Sep-35	2.61	0.05	15-May-35	4.73	0.04				
							Sep-40	2.80	0.05	15-May-37	4.83	0.04				
										15-May-41	4.94	0.04				
										15-May-51	4.95	0.04				
										15-May-54	4.98	0.04				

* These are indicative r 06:46
 please confirm rates with your BNZ dealer
 Rates are as of: NZT
 Source: Bloomberg

NZD exchange rates

23/05/2024 6:45 am		Prev. NY close
USD	0.6086	0.6092
GBP	0.4788	0.4793
AUD	0.9206	0.9139
EUR	0.5624	0.5613
JPY	95.31	95.14
CAD	0.8335	0.8318
CHF	0.5571	0.5550
DKK	4.1969	4.1879
FJD	1.3760	1.3770
HKD	4.7518	4.7547
INR	50.68	50.75
NOK	6.5201	6.5011
PKR	168.06	169.54
PHP	35.34	35.48
PGK	2.3309	2.3323
SEK	6.5440	6.5148
SGD	0.8222	0.8208
CNY	4.4071	4.4091
THB	22.10	21.95
TOP	1.4250	1.4194
VUV	73.16	73.18
WST	1.6503	1.6568
XPF	67.17	67.13
ZAR	11.1330	11.0139



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.14	0.09
3 Months	-0.37	0.08
6 Months	-1.83	-0.82
9 Months	-3.27	-1.25
1 Year	-3.53	-0.53

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-8.93	-8.37
3 Months	-25.73	-24.62
6 Months	-47.92	-45.02
9 Months	-65.79	-60.78
1 Year	-79.18	-71.69

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