

Research Markets Today

24 February 2025

Events Round-Up

NZ: Trade balance (ann \$b), Jan: -7.2 vs. -7.7 prev.

JN: CPI (y/y%), Jan: 4.0 vs. 4.0 exp.

JN: CPI ex fr. food, energy (y/y%), Jan: 2.5 vs. 2.5 exp.

UK: Retail sales ex auto fuel (m/m%), Jan: XX vs. 0.9 exp.

GE: Manufacturing PMI, Feb: 46.1 vs. 45.5 exp.

GE: Services PMI, Feb: 52.2 vs. 52.5 exp.

EC: Manufacturing PMI, Feb: 47.3 vs. 47 exp.

EC: Services PMI, Feb: 50.7 vs. 51.5 exp.

UK: Manufacturing PMI, Feb: 46.4 vs. 48.5 exp.

UK: Services PMI, Feb: 51.1 vs. 50.8 exp.

US: Manufacturing PMI, Feb: 51.6 vs. 51.4 exp.

US: Services PMI, Feb: 49.7 vs. 53 exp.

US: U. of Mich. Consumer sentiment, Feb: 64 vs. 68 exp.

US: U. of Mich. 5-10y inflation exps., Feb: 3.5 vs. 3.3 exp.

US: Existing home sales (m/m%), Jan: -4.9 vs. -2.59 exp.

Good morning

US equities fell sharply, and treasuries rallied amid rising investor risk aversion, after weaker than expected activity in the services sector raised concerns that political uncertainty is weighing on growth. The S&P closed 1.7% lower. The US dollar was generally stronger against G10 currencies despite the weaker data. Oil prices fell with Brent trading back towards US\$74 per barrel, 3% lower on the day.

The US services PMI was considerably weaker than expected. It dropped to 49.7, down from 52.9 in January and was the lowest reading since January 2023, as uncertainty about the new administration's economic policies weighed on orders and business expectations. The recent weakness in activity readings has seen the US economic surprise index drop into negative territory. The manufacturing PMI edged higher to 51.6, closely matching expectations.

The final reading for the University of Michigan Consumer Sentiment index fell to 64.7 compared with an initial print of 67.8. Both the current conditions and the expectations fell with the latter index having a closer relationship with consumer spending. Of concern to the Fed, will be the further rise in medium term inflation expectations.

Five-year to 10-year expectations increased to 3.5% which is the highest level since 1995. Fed officials have previously said it would be appropriate to look through a temporary increase in inflation relating to tariffs. However, a different policy response could be required if longer term inflation expectations rise.

US treasury yields fell following the PMI data with a largely parallel curve shift. 10-year yields closed 7bp lower at 4.43%. This was the lowest level in two weeks and not far above the low for the year at 4.38%. The move lower in yields extended as equity markets fell despite the upside surprise to longer term inflation expectations in the Michigan report.

European bond yields moved steadily lower. A weak reading for the French services PMI created the initial downside momentum, and although the German data came in close to expectations, yields continued to fall with bunds closing 6bp lower at 2.47%.

Headline CPI in Japan increased to 4.0% in January while core inflation, which strips out the impact of fresh food and energy, increased 2.5%. Although the data aligned closely with consensus expectations, it supports the view that the Bank of Japan (BoJ) will keep tightening policy this year. Risks are skewed towards the topside relative to the 35bp of hikes priced by the market.

The yen weakened in Asia despite the firm inflation data after BoJ Governor Kazuo Ueda told parliament officials the Bank would respond to a sharp rise in bond yields with nimble asset purchases. The yen bounced back in offshore trading on Friday night as US yields fell and was the only currency to gain against the US dollar.

The US dollar dipped after the weak PMI data but rebounded quickly. The dollar index gained around 0.3% from the local close supported by the risk off tone in equities. The euro fell initially after the French PMI data and then extended lower. The AUD was the worst performing G10 currency.

The stronger US dollar saw NZD/USD trade below 0.5750. NZD/AUD gained towards 0.9030 and closed the week at two-week highs. The NZD was marginally weaker against core European currencies and fell more than 1% against the yen.

NZ fixed income yields moved higher in the local session on Friday. 2-year rates closed at 3.59%, up 2bp on the day, to the highest level in four weeks. The market looked past comments from RBNZ Chief Economist Paul Conway who said taking rates below neutral while not in the Bank's central projection is part of the 'risk conversation'. The curve steepened with 10y swap rates increasing 4bp to 4.27%. The 2y10y curve is edging back towards the cyclical peak of 71bp reached at the end of January.

Government bonds outperformed against swaps. 10-year yields closed 1bp higher at 4.68% with asset swap spreads matching the recent two-month lows at +40bp. Australian 10y bond futures closed 7bp lower in yield terms since the local close on Friday, which suggests a downward bias, for NZ yields on the open.

The only domestic data of note today is December quarter retail sales volumes. The Ifo survey of business expectations is released in Germany and the Conference Board measure of US consumer is scheduled overnight.

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Coming Up

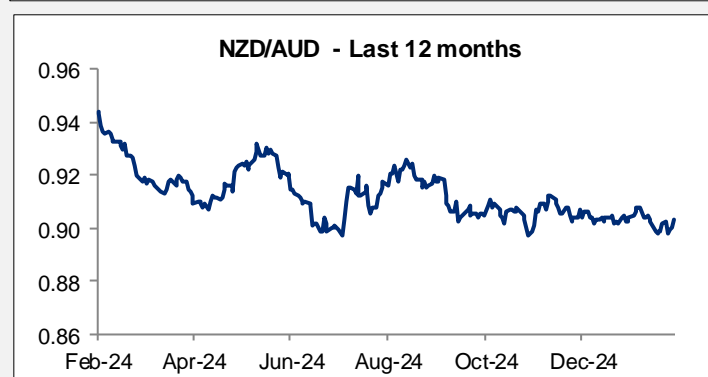
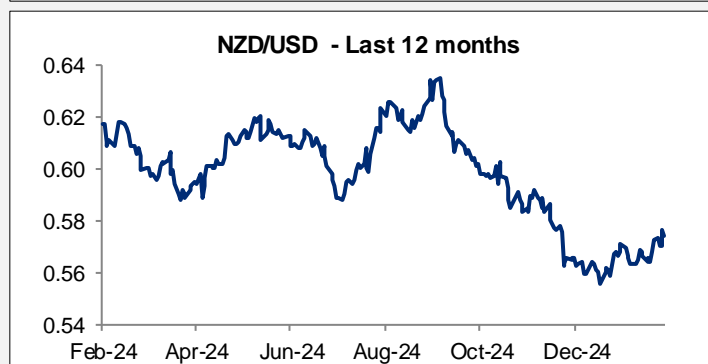
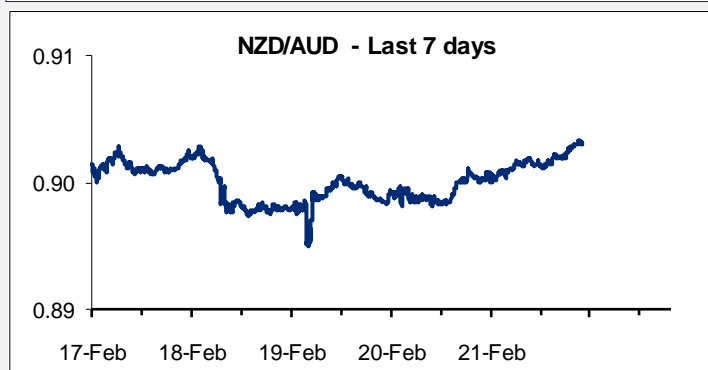
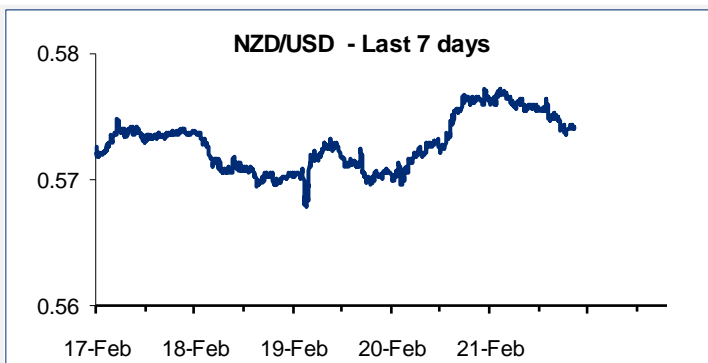
		Period	Cons.	Prev.	NZT
NZ	Retail Sales Ex Inflation (q/q%)	4Q	-0.1	10:45	
GE	IFO Expectations	Feb	85	84.2	22:00
EC	Euro Area Indicator of Negotiated Wage Rates				23:00
US	Conf. Board Cons. Confidence	Feb	103	104.1	04:00

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	0.5742	-0.4	0.0000	0.0000	CHF	0.8983	+0.0	S&P 500	6,013	-1.7	18.2	Oil (Brent)	74.43	-2.7	
AUD	0.6358	-0.7	0.0000	0.0000	SEK	10.651	+0.2	Dow	43,428	-1.7	11.0	Oil (WTI)	70.40	-2.9	
EUR	1.0461	-0.4	0.0000	0.0000	NOK	11.147	+0.5	Nasdaq	19,524	-2.2	22.0	Gold	2937.6	-0.1	
GBP	1.2633	-0.3	0.0000	0.0000	HKD	7.770	-0.1	Stoxx 50	5,475	+0.3	12.4	HRC steel	778.0	-0.1	
JPY	149.32	-0.2	0.00	0.00	CNY	7.252	+0.1	FTSE	8,659	-0.0	12.4	CRB	311.2	-1.7	
CAD	1.4228	+0.3			SGD	1.337	+0.2	DAX	22,288	-0.1	27.9	Wheat Chic.	604.0	+0.6	
NZD/AUD	0.9031	+0.3			IDR	16,313	-0.2	CAC 40	8,155	+0.4	2.4	Sugar	21.31	+1.2	
NZD/EUR	0.5488	+0.0			THB	33.55	+0.0	Nikkei	38,777	+0.3	-0.8	Cotton	66.08	+0.2	
NZD/GBP	0.4545	-0.1			KRW	1,434	-0.1	Shanghai	3,379	+0.8	12.5	Coffee	389.3	-0.2	
NZD/JPY	85.73	-0.6			TWD	32.76	-0.1	ASX 200	8,296	-0.3	8.5	WM powder	4000	-1.5	
NZD/CAD	0.8169	-0.0			PHP	57.95	+0.0	NZX 50	12,753	-1.0	8.8	Australian Futures			
NZ TWI	68.24	-0.2						VIX Index	18.21	+16.3	+32.4	3 year bond	96.07	0.02	
Interest Rates													10 year bond	95.52	0.07
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	4.04	4.04	USD	4.43	-0.07	15-Apr-27	3.76	0.04	BKBM 1-mth	3.87	-0.00		
AUD	4.10	4.14	3.86	4.45	AUD	4.51	-0.01	15-May-28	3.91	0.03	BKBM 3-mth	3.77	0.00		
NZD	3.75	3.77	3.59	4.27	NZD	4.68	0.01	20-Apr-29	4.04	0.03	1 year	3.49	0.01		
EUR	2.75	2.52	2.24	2.41	GER	2.47	-0.06	15-May-30	4.18	0.03	2 year	3.59	0.02		
GBP	4.50	5.30	4.09	4.08	GBP	4.57	-0.04	15-May-31	4.32	0.03	3 year	3.69	0.04		
JPY	0.48	-0.03	0.81	1.26	JPY	1.43	-0.02	15-May-32	4.43	0.03	5 year	3.87	0.04		
CAD	3.00	4.97	2.64	2.89	CAD	3.11	-0.10	14-Apr-33	4.51	0.01	7 year	4.05	0.04		
					NZ Inflation-Indexed Bonds								10 year	4.27	0.04
					Sep-30	2.37	0.01	15-May-35	4.68	0.01	15 year	4.51	0.04		
* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer					Sep-35	2.86	0.00	15-May-36	4.76	0.02					
Rates at NY close					Sep-40	3.13	0.00	15-May-37	4.86	0.02					
Source: Bloomberg								15-May-41	5.06	0.02					
								15-May-51	5.23	0.02					
								15-May-54	5.23	0.02					

NZD exchange rates

23/02/2025	NY close	Prev. NY close
USD	0.5742	0.5763
GBP	0.4545	0.4549
AUD	0.9031	0.9005
EUR	0.5488	0.5488
JPY	85.73	86.24
CAD	0.8169	0.8169
CHF	0.5158	0.5175
DKK	4.0953	4.0929
FJD	1.3249	1.3257
HKD	4.4617	4.4816
INR	49.79	49.95
NOK	6.4008	6.3926
PKR	160.46	161.05
PHP	33.27	33.38
PGK	2.3294	2.3126
SEK	6.1156	6.1262
SGD	0.7675	0.7685
CNY	4.1643	4.1741
THB	19.30	19.40
TOP	1.3568	1.3656
VUV	70.98	71.16
WST	1.6020	1.6027
XPF	65.61	66.14
ZAR	10.5563	10.5727



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	2.50	3.00
3 Months	10.05	11.30
6 Months	23.65	24.65
9 Months	36.25	38.59
1 Year	46.16	50.78

NZD/AUD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	1.93	2.85
3 Months	9.59	12.37
6 Months	23.96	26.69
9 Months	37.79	42.65
1 Year	47.24	57.14

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