

# Research Markets Today

24 May 2024

## Events Round-Up

NZ: Real retail sales (q/q%), Q1: 0.5 vs. -0.3 exp.  
 GE: Manufacturing PMI, May: 45.4 vs. 43.5  
 GE: Services PMI, May: 53.9 vs. 53.5 exp.  
 EA: Manufacturing PMI, May: 47.4 vs. 46.1  
 EA: Services PMI, May: 53.3 vs. 53.6 exp.  
 EA: Consumer confidence, May: -14.3 vs. -14.2 exp.  
 UK: Manufacturing PMI, May: 51.3 vs. 49.5 exp.  
 UK: Services PMI, May: 52.0 vs. 54.7 exp.  
 US: Initial jobless claims (k), wk to May 18: 215 vs. 220 exp.  
 US: Manufacturing PMI, May: 50.9 vs. 49.9 exp.  
 US: Services PMI, May: 54.8 vs. 51.2 exp.  
 US: New home sales (k), Apr: 634 vs. 678 exp.

## Good Morning

Much stronger than expected US PMI data drove US rates and the USD higher and US equities lower overnight. This saw the NZD lose earlier gains, and it trades back just under 0.61. The spillover from Wednesday's hawkish RBNZ policy update continued, with domestic rates higher, led by the short-end, NZD/AUD rising to a fresh five-week high, and NZD/JPY up to a 17-year high.

In market-moving news overnight, the US composite PMI index rose by 3.1pts to 54.4, its highest level since April 2022, compared to expectations of a flat result. The gain was driven by the services sector, with that index up 3.5pts to 54.8. The manufacturing index gained by less than a point to 50.9. The data pointed to lingering economic resilience in the services sector, which will make the job harder to bring inflation down. Composite measures of input and output prices also increased.

With the strong data following a month-long period of US economic releases mostly surprising on the negative side, there was a larger than usual impact on the market, driving US rates and the USD higher and US equities lower. Adding to that mood, initial jobless claims fell by slightly more than expected to 215k – the two-week decline bringing the figure back down to its average for this year and suggesting that the spike higher two weeks ago was an anomaly. Jobless claims have yet to meaningfully show the increase being forewarned by other softening labour market indicators. New home sales were weaker than

expected at 634k, continuing the run of softer housing market data.

US Treasury yields are up 4-6bps across the curve, led by the belly. The 10-year rate is currently trading up 5bps at 4.47%, after the market found support just under 4.5%. The Fed Funds market is back to pricing just 35bps of cuts this year, with November no longer fully priced. Higher US Treasury yields spilled over into other markets, with Germany's 10-year rate up 6bps and UK's 10-year rate up 3bps.

US equities notably weakened after the PMI report. After the S&P500 opened 0.7% higher, the index now shows a 0.7% fall. This is despite market-darling Nvidia's share price rising 10%, after it once again delivered a very strong earnings report, while adding in a stock-split and dividend increase into the mix.

The USD was broadly weaker heading into the PMI release, before sustaining a rebound. The NZD was trading above 0.6130 ahead of the release and has subsequently fallen to just below 0.61. The AUD broke up through 0.6650, before falling just below 0.66. USD/JPY briefly traded above the 157 mark for the first time since the official Japanese intervention earlier this month and currently sits just below the figure.

On the NZD crosses, NZD/AUD continues to feel the impact of the more hawkish RBNZ update on Wednesday, rising to a five-week high just under 0.9240. NZD/JPY rose to a fresh 17-year high of 96.1 before meeting some resistance and it has fallen back to 95.6.

The PMI data across Europe showed gains for the manufacturing sector across the board (Germany, UK, Euro area) and higher than expected, adding to the sense that the global manufacturing sector is enjoying an upswing. The PMIs across the services sector were mixed, higher for Germany, relatively flat for the Euro area and UK data underwhelming.

Also of note, Euro area negotiated wages reported by the ECB rose 4.7% y/y in Q1, up from 4.5% in the previous quarter and against expectations that wage inflation would moderate. However, the ECB's report on wages noted that "wage pressures look set to decelerate in 2024...ECB wage tracker data for the first few months of the year, when most agreements take place, indicate that negotiated wage pressures are moderating".

The data, alongside the backdrop of higher US rates, saw the market pare some ECB easing priced into the curve, with 59bps of cuts priced for this year (down from 64bps priced yesterday). A June rate cut still remains a high-probability event, but the ECB is likely to pause in July and the scope for further easing will depend on the dataflow. Speaking after the data, Bank of France Governor de Galhau said “we are very probably” going to cut in the June meeting and he noted that Germany caused the one-off blip in higher wages and wages decelerated significantly in other countries.

Yesterday, the domestic rates market was still re-positioning after the hawkish RBNZ on Wednesday, with offshore investors particularly shocked by the tone and they were positioned for imminently lower rates. This saw the market underperform on a cross market basis, with a further short-end led sell-off in NZGBs, with yields up 8bps for the 2-year and 4bps for the ultra-long bonds. Demand at the weekly bond tender was tepid, with the 2032 bonds attracting a bid-cover ratio of just 1.3. The swaps market showed similar curve flattening, with the 2-year rate up 8bps to 5.07% and the 10-year rate up 3bps to 4.57%.

NZ retail sales were stronger than expected in Q1. The 0.5%q/q in real sales followed eight consecutive quarterly contractions, but the market didn’t read too much into the bounce, given the timelier anecdotes that suggest the retail sector is still under immense pressure.

In the day ahead the economic calendar is full. Domestic releases include consumer confidence and trade. Annual

Japan CPI inflation is expected to moderate, as forewarned by previously released Tokyo data, with removal of some education fees a notable factor. Tonight sees the release of UK and Canadian retail sales, while in the US, durable goods orders and the final readings for US consumer sentiment and inflation expectations from the University of Michigan survey are released. Fed Governor Waller is likely to repeat his relatively hawkish message.

[jason.k.wong@bnz.co.nz](mailto:jason.k.wong@bnz.co.nz)

## Coming Up

		Period	Cons.	Prev.	NZT
NZ	ANZ consumer confidence	May	82.1	10:00	
NZ	Trade balance (annual \$b)	Apr	-9.9	10:45	
UK	GfK consumer confidence	May	-18	-19	11:01
JN	CPI (y/y%)	Apr	2.4	2.7	11:30
JN	CPI ex fresh food, energy (y/y%)	Apr	2.4	2.9	11:30
UK	Retail sales ex auto fuel (m/m%)	Apr	-0.8	-0.3	18:00
CA	Retail sales ex auto (m/m%)	Mar	0.3	-0.3	00:30
US	Durable goods orders (m/m%)	Apr	-0.8	2.6	00:30
US	Durables ex transport (m/m%)	Apr	0.1	0.2	00:30
US	Fed's Waller gives keynote address				01:35
US	U. of Mich. cons. sentiment	May	67.7	67.4	02:00
US	U. of Mich. 5-10y inflation exp.	May	3.1	3.1	02:00

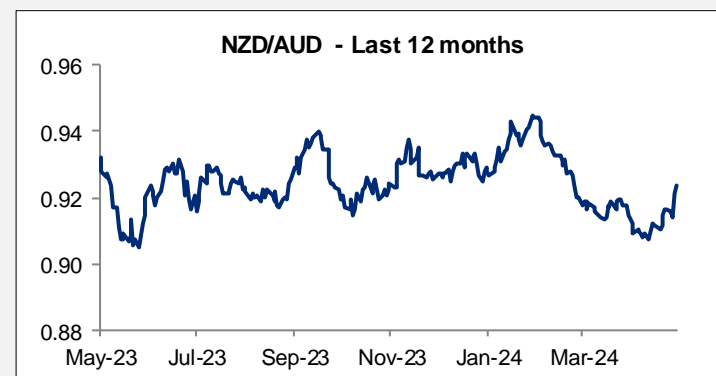
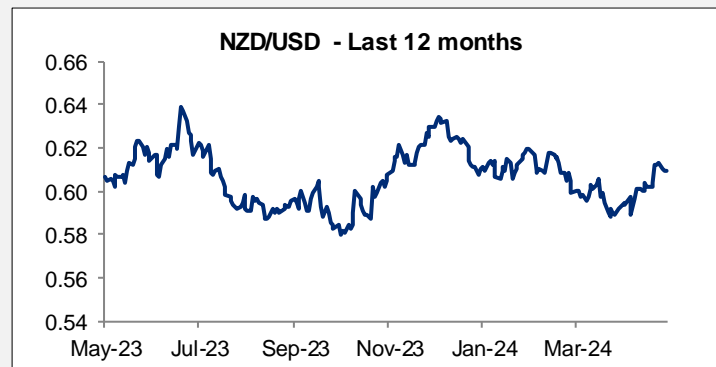
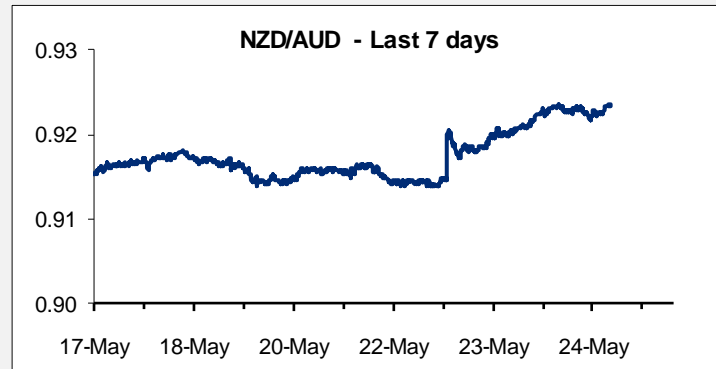
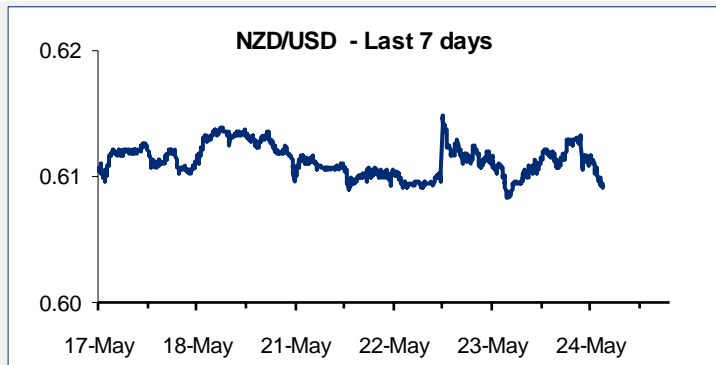
Source: Bloomberg, BNZ

Currencies						Equities				Commodities					
Global froces		Indicative overnight ranges (*)			Other FX		Major Indices				Price (Near futures, except CRB)				
	Last	% Day	Low	High		Last	% Day			Last	Net Day				
NZD	0.6095	-0.0	0.6092	0.6134	CHF	0.9149	-0.1	S&P 500	5,267	-0.8	27.0	Oil (Brent)	81.39	-0.6	
AUD	0.6600	-0.3	0.6598	0.6653	SEK	10.749	+0.1	Dow	39,043	-1.6	18.1	Oil (WTI)	76.90	-0.8	
EUR	1.0805	-0.2	1.0805	1.0861	NOK	10.687	-0.2	Nasdaq	16,691	-0.7	32.9	Gold	2336.8	-2.3	
GBP	1.2687	-0.2	1.2686	1.2747	HKD	7.809	+0.0	Stoxx 50	5,038	+0.2	16.0	HRC steel	789.0	+0.0	
JPY	156.89	+0.1	156.53	157.20	CNY	7.243	+0.0	FTSE	8,339	-0.4	7.4	CRB	295.3	-0.2	
CAD	1.3742	+0.4			SGD	1.352	+0.1	DAX	18,691	+0.1	15.7	Wheat Chic.	720.3	+1.1	
NZD/AUD	0.9235	+0.3			IDR	15,995	-0.0	CAC 40	8,102	+0.1	9.8	Sugar	18.26	+0.2	
NZD/EUR	0.5641	+0.1			THB	36.65	+0.5	Nikkei	39,103	+1.3	27.4	Cotton	81.72	+2.9	
NZD/GBP	0.4804	+0.2			KRW	1,362	-0.0	Shanghai	3,116	-1.3	-2.8	Coffee	215.7	-2.2	
NZD/JPY	95.62	+0.1			TWD	32.23	-0.1	ASX 200	7,812	-0.5	8.3	WM powder	3250	+0.9	
NZD/CAD	0.8376	+0.3			PHP	58.14	+0.1	NZX 50	11,809	+0.7	-1.4	<b>Australian Futures</b>			
NZ TWI	71.89	+0.1						VIX Index	13.06	+6.3	-29.5	3 year bond	96.07	0.00	
<b>Interest Rates</b>													10 year bond	95.68	-0.02
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	4.83	4.11	USD	4.47	0.05	15-May-26	4.84	0.08	BKBM 1-mth	5.60	0.00		
AUD	4.35	4.34	4.23	4.49	AUD	4.26	-0.03	15-Apr-27	4.67	0.07	BKBM 3-mth	5.62	0.00		
NZD	5.50	5.62	5.07	4.57	NZD	4.74	0.06	15-May-28	4.61	0.06	1 year	5.49	0.06		
EUR	4.00	3.82	3.40	2.84	GER	2.60	0.06	20-Apr-29	4.57	0.05	2 year	5.07	0.08		
GBP	5.25	5.30	4.73	3.96	GBP	4.26	0.03	15-May-30	4.58	0.05	3 year	4.77	0.07		
JPY	0.08	-0.03	0.42	1.04	JPY	1.00	-0.01	15-May-31	4.63	0.06	5 year	4.54	0.05		
CAD	5.00	5.25	4.55	3.92	CAD	3.62	0.03	15-May-32	4.68	0.06	7 year	4.51	0.04		
						<b>NZ Inflation-Indexed Bonds</b>		14-Apr-33	4.70	0.06	10 year	4.57	0.03		
						Sep-30	2.33	0.04	15-May-34	4.74	0.06	15 year	4.71	0.03	
						Sep-35	2.65	0.04	15-May-35	4.78	0.05				
						Sep-40	2.84	0.04	15-May-37	4.88	0.04				
									15-May-41	4.98	0.04				
									15-May-51	4.98	0.04				
									15-May-54	5.02	0.04				

\* These are indicative r 06:59  
 please confirm rates with your BNZ dealer  
 Rates are as of: NZT  
 Source: Bloomberg

**NZD exchange rates**

24/05/2024	7:00 am	Prev. NY close
USD	0.6095	0.6097
GBP	0.4804	0.4794
AUD	0.9235	0.9210
EUR	0.5641	0.5633
JPY	95.62	95.60
CAD	0.8376	0.8350
CHF	0.5576	0.5583
DKK	4.2090	4.2036
FJD	1.3811	1.3797
HKD	4.7595	4.7605
INR	50.76	50.79
NOK	6.5136	6.5291
PKR	169.68	169.68
PHP	35.43	35.40
PGK	2.3344	2.3369
SEK	6.5515	6.5471
SGD	0.8241	0.8236
CNY	4.4145	4.4150
THB	22.26	22.14
TOP	1.4158	1.4370
VUV	73.46	73.32
WST	1.6539	1.6506
XPF	67.31	67.28
ZAR	11.2689	11.1369



**NZD/USD Forward Points**

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.14	0.10
3 Months	-0.41	0.13
6 Months	-1.63	-0.63
9 Months	-3.76	-1.68
1 Year	-4.64	-1.63

**NZD/AUD Forward points**

	BNZ buys NZD	BNZ Sells NZD
1 Month	-8.76	-8.14
3 Months	-25.36	-24.13
6 Months	-47.84	-45.28
9 Months	-67.64	-62.58
1 Year	-82.17	-74.45

# 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.