

Research Markets Today

25 July 2024

Events Round-Up

GE: GfK consumer confidence, Aug: -18.4 vs. -21.0 exp.
 GE: Manufacturing PMI, Jul: 42.6 vs. 44.0 exp.
 GE: Services PMI, Jul: 52.0 vs. 53.3 exp.
 EA: Manufacturing PMI, Jul: 45.6 vs. 46.1 exp.
 EA: Services PMI, Jul: 51.9 vs. 52.9 exp.
 UK: Manufacturing PMI, Jul: 51.8 vs. 51.0 exp.
 UK: Services PMI, Jul: 52.4 vs. 52.5 exp.
 CA: Bank of Canada policy rate (%), Jul: 4.5 vs. 4.5 exp.
 US: Goods trade balance (\$b), Jun: -96.8 vs. -98.7 exp.
 US: Manufacturing PMI, Jul: 49.5 vs. 51.6 exp.
 US: Services PMI, Jul: 56.0 vs. 54.9 exp.
 US: New home sales (k), Jun: 617 vs. 640 exp.

Good Morning

US stocks have tumbled, led by the mega cap and IT stocks, seeing the Nasdaq index down 3½%, and the S&P500 down about 2%. However, it doesn't seem like a classic risk-off event, with the US 10-year rate up slightly but the curve has steepened significantly, with the 2-year rate down 8bps, supported by a call by ex-FOMC member Dudley for the Fed to cut rates from next week. The yen continues to outperform, while the NZD recovered slightly overnight after falling further through the NZ trading session.

Investors are questioning whether the AI trade has done its dash, taking money off the table and with Tesla and Alphabet's earnings results after the bell yesterday not providing a catalyst to stay invested. The S&P500 is currently down nearly 2%, with the index dragged down by falls in the mega cap stocks, with Tesla down 11%, and Nvidia, Alphabet and Meta down in the order of 5%. The tech-heavy Nasdaq index is down 3½% while the Russell 2000 index, comprised of smaller cap stocks, is down just over 1%.

While the VIX index has shot up to 17.5, implying much weaker risk appetite, it is not a classic risk-off event, given that investors are not flocking to the safety of US Treasuries and the NZD has recovered a little overnight. The risk-off vibe looks specific to the US equity sectors where investors are questioning whether some stocks have run up too hard.

The US Treasuries market seems to have been influenced by an opinion piece written by former NY Fed President Dudley. He said based on recent data he had changed his mind, his view shifting from being in the higher-for-longer camp to the Fed needing to cut rates, preferably at next week's meeting. This drove a significant steepening of the curve, with the 2-year rate currently down 8bps to 4.41%, while the 10-year rate is up 3bps to 4.28%. The market has only priced in 1bps of cuts for next week's meeting and 66bps for the year, the latter up slightly from the 62bps priced at yesterday's close.

As widely expected, the Bank of Canada cut its policy rate by 25bps for a consecutive meeting, taking it down to 4.5%. Governor Macklem noted "with the target in sight and more excess supply in the economy, the downside risks are taking on increased weight in our monetary policy deliberations". A note for RBNZ watchers, a comment like that would be an accurate expression of the NZ economy, which begs the question of why the RBNZ wouldn't also deliver easier policy at its next meeting. Back to the Bank of Canada, it said it was reasonable to expect further interest rate cuts and that the Bank will be taking its decisions "one at a time", perhaps a signal that it wouldn't necessarily be cutting at sequential meetings. Market reaction was well contained, with little net movement in the CAD, while the market prices a 64% chance of another cut at the September meeting.

Global PMI data were mixed, with weaker figures across the Euro area, steady to slightly higher figures in the UK and the US composite index pushing higher, driven by the services sector. The fall in the euro area composite to 50.1 suggests a hiccup in July in the road to recovery, dragged down by Germany. The small lift in UK's PMI composite to 52.7 in July is consistent with the economy continuing to grow nicely. The rise in the US services PMI to 56.0, its highest level in more than two years, continues to defy the much weaker reading from the alternative ISM survey. The market rightly ignored the survey or was perhaps relieved that the future activity and employment indicators of the survey fell, and were consistent with other indicators of only modest US growth.

US new home sales were weaker than expected, falling to a seven-month low, while builders' inventory levels continue to push higher, to 476k homes in June, the highest since the GFC, or 9.3 months of supply at the current sales rate. The goods trade deficit was slightly

lower than expected, but net exports are still expected to make a negative contribution to Q2 GDP.

In currency markets, JPY continues its outperforming run as short positions are unwound. USD/JPY is trading just at 154, having fallen to as low as 153.11 overnight, while NZD/JPY continues to tumble, now down to 91.3, down 3½% this week so far and down nearly 8% from its high just a couple of weeks ago.

Both the NZD and AUD continued to fall through the NZ trading session, the NZD reaching a low around 0.5915 before staging a mild recovery to 0.5950 overnight, and since edging back down a little. The AUD’s overnight recovery has now been completely wiped out and it is trading back down around 0.6580. NZD/AUD has pushed back up through 0.90, after trading down to 0.8980 near the NZ close. EUR, GBP and CAD show small net movements for the day, but of note NZD/GBP is trading below 0.46 for the first time since 2016.

In yesterday’s domestic trading session we saw some capitulation of positions at the short end of the swaps curve and in money markets, with a collapse of the 2-year swap rate on no news of 8bps to 4.25%, the fallout from the RBNZ’s shocking dovish pivot a couple of weeks ago still rocking the market. The 5-year swap rate fell by 4bps

while the 10-year rate was down just 1bp. This spilled over into the bond market, with short maturities down 4-5bps, and the longer end up 1-2bps. The DMO announced that it expected to launch a new nominal 2036 bond via syndication before the end of September.

The key release on the economic calendar tonight will be the first estimate of Q2 GDP in the US, with the consensus picking growth at an annualised 2%, with the core PCE deflator expected to be an annualised 2.7%. Jobless claims and durable goods orders pad out the calendar as well as Germany’s IFO survey.

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Coming Up

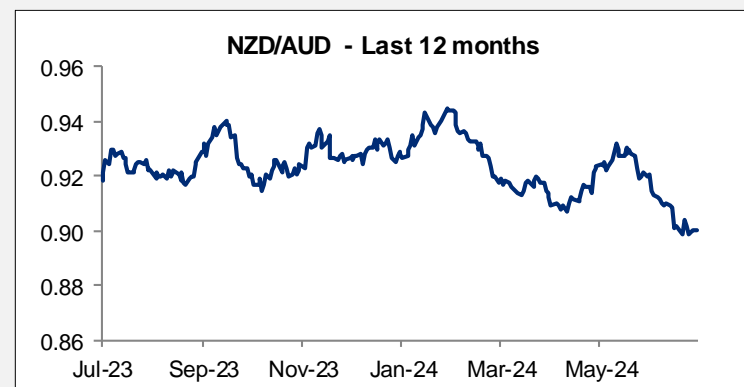
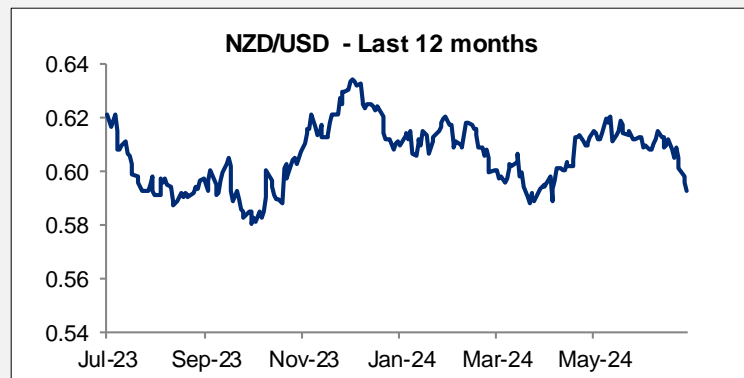
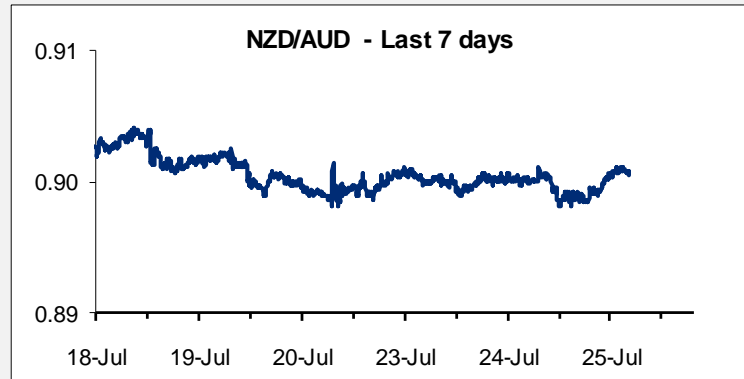
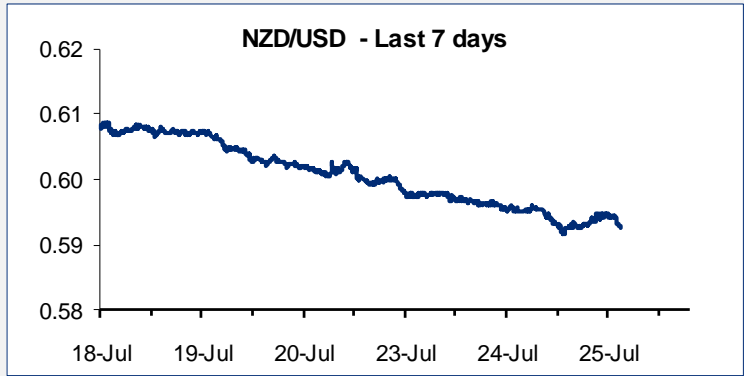
		Period	Cons.	Prev.	NZT
GE	IFO expectations	Jul	89.1	89.0	20:00
US	GDP (ann'lsd q/q%)	Q2	2.0	1.4	00:30
US	Core PCE deflator (ann'lsd q/q%)	Q2	2.7	3.7	00:30
US	Initial jobless claims (k)	20-Jul	238	243	00:30
US	Durable goods orders (m/m%)	Jun	0.3	0.1	00:30
US	Durables ex transport. (m/m%)	Jun	0.2	-0.1	00:30

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	0.5925	-0.5	0.5925	0.5950	CHF	0.8858	-0.6				Oil (Brent)	81.55	+0.7
AUD	0.6580	-0.5	0.6580	0.6610	SEK	10.786	+0.2				Oil (WTI)	77.48	+0.7
EUR	1.0838	-0.2	1.0826	1.0866	NOK	11.039	+0.1				Gold	2408.5	+0.0
GBP	1.2904	-0.0	1.2878	1.2938	HKD	7.809	-0.0				HRC steel	658.0	+0.5
JPY	154.02	-1.0	153.11	154.95	CNY	7.264	-0.2				CRB	280.4	-0.9
CAD	1.3814	+0.2			SGD	1.344	-0.1				Wheat Chic.	571.5	+0.7
NZD/AUD	0.9005	+0.0			IDR	16,215	+0.0				Sugar	17.91	-1.4
NZD/EUR	0.5467	-0.4			THB	36.10	-0.2				Cotton	67.01	-2.2
NZD/GBP	0.4592	-0.5			KRW	1,380	-0.4				Coffee	231.2	-3.3
NZD/JPY	91.26	-1.5			TWD	32.84	-0.1				WM powder	3060	+0.3
NZD/CAD	0.8185	-0.3			PHP	58.45	+0.0				Australian Futures		
NZ TWI	69.87	-0.5									3 year bond	95.99	0.01
											10 year bond	95.64	0.01
Interest Rates							NZ Government Bonds				NZ BKBM and Swap Yields		
Rates		Swap Yields			Benchmark 10 Yr Bonds				Last		Chg		
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day				Last	Chg	
USD	5.50	5.55	4.27	3.84	USD	4.28	0.03	15-May-26	4.37	-0.05	BKBM 1-mth	5.58	-0.01
AUD	4.35	4.47	4.18	4.47	AUD	4.33	-0.02	15-Apr-27	4.15	-0.04	BKBM 3-mth	5.53	-0.01
NZD	5.50	5.53	4.25	4.15	NZD	4.41	0.01	15-May-28	4.07	-0.02	1 year	4.85	-0.07
EUR	3.75	3.69	3.01	2.72	GER	2.44	0.01	20-Apr-29	4.08	-0.01	2 year	4.25	-0.08
GBP	5.25	5.30	4.39	3.86	GBP	4.16	0.03	15-May-30	4.15	-0.00	3 year	4.00	-0.07
JPY	0.08	-0.03	0.45	1.01	JPY	1.08	0.02	15-May-31	4.22	-0.00	5 year	3.93	-0.04
CAD	4.50	4.97	3.62	3.33	CAD	3.40	0.00	15-May-32	4.31	0.00	7 year	4.01	-0.02
								14-Apr-33	4.37	0.00	10 year	4.15	-0.01
								15-May-34	4.41	0.01	15 year	4.29	-0.01
								15-May-35	4.46	0.01			
								15-May-37	4.59	0.01			
								15-May-41	4.76	0.02			
								15-May-51	4.80	0.02			
								15-May-54	4.83	0.02			
* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer							NZ Inflation-Indexed Bonds						
Rates are as of: NZT 07:00							Sep-30	2.21	0.00				
Source: Bloomberg							Sep-35	2.48	0.00				
							Sep-40	2.72	0.00				

NZD exchange rates

25/07/2024	7:00 am	Prev. NY close
USD	0.5925	0.5957
GBP	0.4592	0.4615
AUD	0.9005	0.9005
EUR	0.5467	0.5488
JPY	91.26	92.68
CAD	0.8185	0.8212
CHF	0.5248	0.5309
DKK	4.0797	4.0955
FJD	1.3357	1.3480
HKD	4.6269	4.6521
INR	49.60	49.86
NOK	6.5406	6.5678
PKR	164.83	165.90
PHP	34.63	34.78
PGK	2.2859	2.3000
SEK	6.3904	6.4145
SGD	0.7962	0.8016
CNY	4.3036	4.3336
THB	21.43	21.57
TOP	1.3782	1.3990
VUV	71.47	71.83
WST	1.6070	1.6256
XPF	65.12	65.39
ZAR	10.8866	10.9555



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.18	0.09
3 Months	-0.22	0.16
6 Months	0.99	1.99
9 Months	3.38	5.41
1 Year	5.77	8.77

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-6.78	-6.11
3 Months	-18.49	-17.37
6 Months	-26.39	-23.83
9 Months	-25.37	-20.14
1 Year	-19.85	-11.29

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