

Research Markets Today

25 September 2024

Events Round-Up

CH: PBoC 7-day reverse repo rate (%), Sep: 1.5 vs. 1.7 prev.

AU: RBA cash rate target (%), Sep: 4.35 vs. 4.35 exp.

GE: IFO expectations, Sep: 86.3 vs. 86.4 exp

US: Conf. Board consumer confid., Sep: 98.7 vs. 104.0 exp.

Good Morning

Risk appetite has been supported by a smorgasbord of Chinese easing measures to support the economy, while the RBA update was seen as dovish and weaker US consumer confidence was also a market moving event. Equity markets are higher and global rates are lower as markets price in more Fed and ECB easing. Curves are steeper. Broad-based fall in USD evident, with NZD leading the charge, up to its highest level this year, above 0.6330 and NZD/AUD up to 0.92.

There have been a few market moving events over the past 24 hours. Overnight, the Conference Board measure of US consumer confidence showed its largest drop in three years, from an upwardly revised 105.6 in August to 98.7 in September, well below the 104 level expected. Both the present situation and expectations components contributed to the drop, more so for the former, with hints that the deterioration in the labour market was a key driver. The difference between those saying jobs were plentiful and those saying jobs were hard to get narrowed for an eighth successive month.

Given the Fed's policy focus on the state of the labour market, the data triggered lower US rates across the curve, with the market now pricing in 40bps of cuts for the next meeting and a cumulative 79bps for the last two meetings this year. The 2-year Treasury yield is down 4bps to 3.55% against a smaller fall in the 10-year rate to 3.73%. Thus, the 2s10s curve steepened for a fifth consecutive day, to 18bps, the steepest since mid-2022.

Rates are also lower for Europe, with the market raising the chance of the ECB following up last week's 25bps rate cut with two more over its remaining two meetings this year, cumulatively priced at 48bps. Germany's bunds curve has also steepened, with a short-end led rally, the 2-year rate down 5bps and the 10-year rate down 1bp. Germany's IFO business survey saw an insignificant 0.5pt fall in the expectations component to 86.3, with a larger 2pt decline

in the current assessment index. The Bundesbank warned that Q3 GDP growth could fall, following the 0.1% contraction in Q2.

Lower rates have supported equity markets, with US equities showing modest gains and the Euro Stoxx 600 index closing up 0.7%. Risk appetite was also boosted by easier Chinese policy. Yesterday, China's PBoC and other financial regulators offered a smorgasbord of policy easing measures including cutting the 7-day reverse repo rate by 20bps to 1.5%, cutting the 1-year lending facility rate by 30bps to 2.0%, cutting banks' reserve requirement ratio (RRR) by 50bps, unleashing 1 trillion yuan in liquidity for the banking sector, cuts to existing mortgage rates by about 50bps to match the current lower rates available for new borrowers, lowering minimum deposit requirements for buying second homes, and allowing funds and brokers to tap central bank money to buy equities.

For the stock market, the PBoC will provide at least 800 billion yuan of liquidity support and officials were said to be studying setting up a market stabilisation fund. Governor Pan was prepared to give more forward guidance than usual, promising further cuts to the RRR by 25-50bps later in the year and for key policy rates to decline further.

The support package drove a stronger yuan, with a broadly weaker USD overnight adding to gains, taking USD/CNH down to 7.02 and USD/CNY down to 7.03, the lowest level since May 2023. China's CSI 300 index closed the day up 4.3% while the Hang Seng index also rose over 4%.

It is debatable whether the package will drive stronger China growth. There remains a great deal of skepticism that the measures are strong enough to have any meaningful impact on the property market, demand for credit and consumer spending. The package falls short of what many believe is required to drive a turnaround in growth, that being a significant fiscal stimulus package aimed directly at the consumer.

Higher risk appetite alongside the weaker US consumer confidence survey drove a weaker USD. The DXY index is down 0.4% to 100.5. The USD fall overnight has been broadly based, but the NZD has been a clear outperformer, possibly exacerbated by the closing of long AUD/NZD positions following the RBA policy update.

The RBA left its cash rate at 4.35% and there was little change to guidance, with the Statement continuing to run the line that the Board would remain vigilant to upside risks to inflation and was not ruling anything in or out. However, the market latched onto a comment by Governor Bullock in the press conference that the Board didn't explicitly discuss a rate rise and this saw Australian rates fall and a weaker AUD. The 3-year yield fell 10bps and the 10-year rate fell 7bps, with much of this sustained overnight. The ½-cent fall in the AUD to 0.6815 wasn't sustained, against a backdrop of broad USD weakness and it has recovered to 0.6680, but the impact of the RBA is still felt in AUD crosses, with NZD/AUD trading up over ½ a cent to 0.92.

The NZD climbed steadily overnight and appreciated to just over 0.6330, above the 2-Jan high, with the 28-Dec high of 0.6369 seen to be the next level of resistance. The combo of the weaker USD and stronger yuan has obviously helped the NZD recover to a fresh high for the year. NZD crosses are all higher, with NZD/GBP up to 0.4725, NZD/EUR to 0.5670 and NZD/JPY at 90.75.

In the domestic rates market, curve steepening, as seen in other markets, remained the order of the day. The 2-year

swap rate fell 2bps to 3.73% against no change in the 10-year rate of 3.87%. As in the US, the 2s10s curve is the steepest since mid-2022. NZGB yields were little changed across most of the curve, but rates at the short-end (sub 5-years) were lower by 1-3bps.

In the day ahead, Australian monthly CPI data are expected to show lower headline inflation, from 3.5% to 2.7% y/y in August, driven by electricity subsidies and fuel base effects. Yesterday, the RBA noted that headline inflation will decline for a time, but underlying inflation is more indicative of inflation momentum, and it remains too high. There isn't much on the global calendar tonight.

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Coming Up

	Period	Cons.	Prev.	NZT
AU CPI (y/y%)	Aug	2.7	3.5	13:30
AU CPI trimmed mean (y/y%)	Aug		3.8	13:30
US New home sales (k)	Aug	700	739	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		% Year		Last	Net Day		
NZD	0.6331	+1.0	0.6260	0.6333	CHF	0.8443	-0.4	S&P 500	5,727	+0.1	32.6	Oil (Brent)	75.21	+1.8
AUD	0.6883	+0.7	0.6820	0.6885	SEK	10.114	-0.8	Dow	42,124	-0.0	24.0	Oil (WTI)	71.62	+1.8
EUR	1.1166	+0.5	1.1113	1.1167	NOK	10.415	-0.7	Nasdaq	18,059	+0.5	36.7	Gold	2658.0	+1.1
GBP	1.3399	+0.4	1.3343	1.3400	HKD	7.784	-0.0	Stoxx 50	4,941	+1.1	17.4	HRC steel	704.0	+0.0
JPY	143.36	-0.2	143.28	144.68	CNY	7.032	-0.3	FTSE	8,283	+0.3	7.8	CRB	284.1	+0.6
CAD	1.3446	-0.7			SGD	1.284	-0.5	DAX	18,997	+0.8	22.1	Wheat Chic.	597.8	-0.6
NZD/AUD	0.9198	+0.3			IDR	15,187	-0.1	CAC 40	7,604	+1.3	5.8	Sugar	23.12	+2.5
NZD/EUR	0.5670	+0.5			THB	32.67	-0.8	Nikkei	37,941	+0.6	16.1	Cotton	73.10	-0.7
NZD/GBP	0.4725	+0.6			KRW	1,330	-0.4	Shanghai	2,863	+4.2	-8.1	Coffee	267.8	+1.0
NZD/JPY	90.76	+0.9			TWD	32.02	-0.1	ASX 200	8,142	-0.1	15.1	WM powder	3455	+0.1
NZD/CAD	0.8513	+0.3			PHP	56.24	+0.5	NZX 50	12,304	-0.8	8.1	Australian Futures		
NZ TWI	71.93	+0.6						VIX Index	15.57	-2.0	-9.5	3 year bond	96.65	0.11
Interest Rates										10 year bond			96.10	0.08
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	5.00	4.93	3.33	3.28	USD	3.73	-0.02	15-May-26	3.85	-0.03	BKBM 1-mth	5.18	-0.03	
AUD	4.35	4.44	3.56	4.00	AUD	3.89	-0.07	15-Apr-27	3.67	-0.02	BKBM 3-mth	4.94	-0.03	
NZD	5.25	4.94	3.63	3.87	NZD	4.21	-0.00	15-May-28	3.68	-0.01	1 year	4.14	-0.03	
EUR	3.50	3.43	2.34	2.40	GER	2.15	-0.01	20-Apr-29	3.75	-0.00	2 year	3.63	-0.02	
GBP	5.00	5.30	3.82	3.57	GBP	3.94	0.02	15-May-30	3.87	-0.00	3 year	3.50	-0.02	
JPY	0.23	-0.03	0.40	0.85	JPY	0.82	-0.03	15-May-31	3.98	-0.00	5 year	3.56	-0.01	
CAD	4.25	4.97	2.81	2.83	CAD	2.95	0.00	15-May-32	4.09	-0.00	7 year	3.70	-0.00	
						NZ Inflation-Indexed Bonds				10 year			3.87	0.00
										15 year			4.08	0.00
										15-May-36			4.39	-0.00
										15-May-37			4.49	0.00
										15-May-41			4.69	-0.00
										15-May-51			4.77	0.00
										15-May-54			4.80	-0.00

* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer
 Rates are as of: NZT 06:56
 Source: Bloomberg

NZD exchange rates

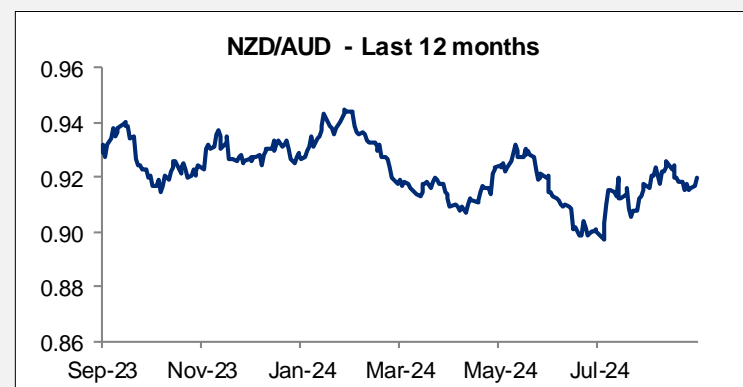
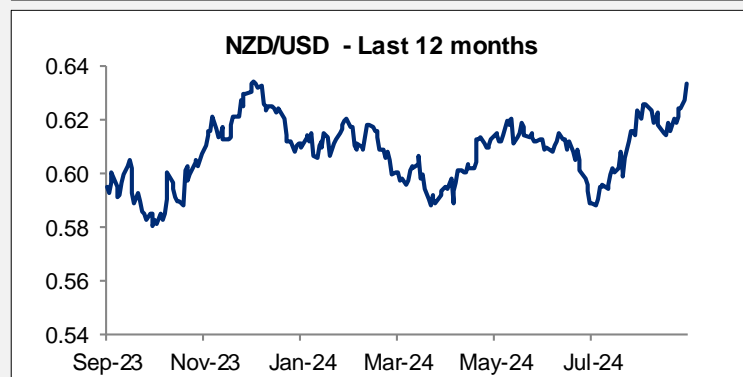
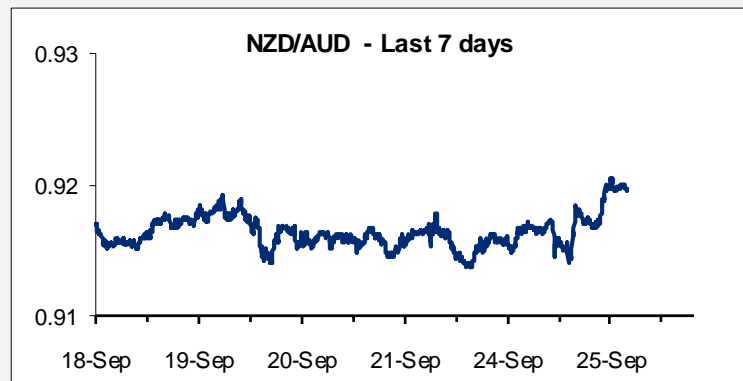
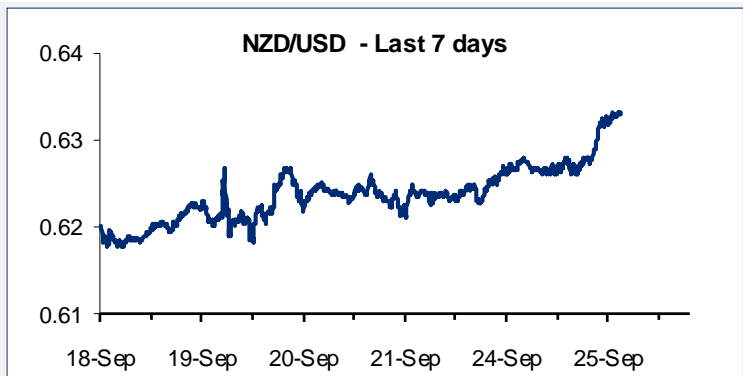
25/09/2024 6:56 am		Prev. NY close
USD	0.6331	0.6267
GBP	0.4725	0.4695
AUD	0.9198	0.9165
EUR	0.5670	0.5640
JPY	90.76	90.00
CAD	0.8513	0.8486
CHF	0.5345	0.5311
DKK	4.2278	4.2068
FJD	1.3896	1.3883
HKD	4.9279	4.8796
INR	52.97	52.36
NOK	6.5939	6.5734
PKR	176.27	174.41
PHP	35.62	35.07
PGK	2.4769	2.4519
SEK	6.4030	6.3892
SGD	0.8130	0.8088
CNY	4.4518	4.4196
THB	20.80	20.69
TOP	1.4655	1.4457
VUV	74.91	74.37
WST	1.7101	1.6929
XPF	68.11	67.59
ZAR	10.9598	10.8734

NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.01	0.30
3 Months	-0.16	0.34
6 Months	-4.05	-3.04
9 Months	-7.71	-5.72
1 Year	-10.07	-7.05

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-4.57	-3.88
3 Months	-8.01	-6.73
6 Months	-8.26	-5.67
9 Months	-4.31	0.51
1 Year	1.98	9.04



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