

Research Markets Today

26 August 2024

Events Round-Up

NZ: Real retail sales (q/q%), Q2: -1.2 vs. -0.9 exp.

UK: GfK consumer confidence, Aug: -13 vs. -12 exp.

JN: CPI (y/y%), Jul: 2.8 vs. 2.7 exp.

JN: CPI ex fresh food, energy (y/y%), Jul: 1.9uk vs. 1.9 exp.

CA: Retail sales ex auto (m/m%), Jun: 0.3 vs. -0.2 exp.

US: New home sales (k), Jul: 739 vs. 623 exp.

Good Morning

Fed Chair Powell's Jackson Hole speech on Friday was much anticipated and his nod to commencing interest rate cuts from September and protecting the labour market were music to the ears of investors. Risk appetite increased, with US equities up over 1%, Treasury yields fell led by the short end, the USD was broadly weaker and commodity currencies outperformed as commodity prices rose. The NZD ended the week just over 0.6230, its highest level since January and it was higher on all the key crosses. The new week begins with increased tension in the Middle East after Israel and Lebanon exchanged missile attacks.

There have been many occasions when the Fed Chair's Jackson Hole speech has been market-moving and this was one of those occasions, justifying the anticipation all week in the lead-up. While the speech contents were not surprising, it will be remembered for the time of Chair Powell giving the all-clear to begin the easing cycle and realigning the focus of monetary policy on the protection of the labour market rather than concern about inflation. The key comments are worth repeating as written:

"The time has come for policy to adjust. The direction of travel is clear, and the timing and pace of rate cuts will depend on incoming data, the evolving outlook, and the balance of risks." And, "We do not seek or welcome further cooling in labour market conditions. Overall, the economy continues to grow at a solid pace. But the inflation and labour market data show an evolving situation. The upside risks to inflation have diminished. And the downside risks to employment have increased. We will do everything we can to support a strong labour market as we make further progress toward price stability".

The market liked what it heard, the Fed's increased confidence that inflation was beaten and now the focus being on avoiding a hard economic landing – the antithesis

of the RBNZ's policy mantra which set out to drive the economy into recession to beat inflation.

US equities were higher, with broadly based gains, all sectors contributing to a 1.1% lift in the S&P500, while the Nasdaq index rose 1.5%.

US Treasury yields were lower, led by the short-end, with the 2-year rate closing the session down 9bps to 3.92% and the 10-year rate down 5bps to 3.80%. The Fed Funds market showed an increased chance of a larger 50bps cut to kick off the easing cycle in September, priced at 34bps, up from 31bps, and 103bps priced for the remaining three meetings, suggesting a jumbo 50bps cut thrown into the mix. Analysts noted that the word "gradual" was missing from the speech. Time-dependent forward guidance from central banks has been a past policy mistake and it makes much more sense to be guided by the data, as Powell revealed. On that note, the next employment report due 6 September and following reports will be the key for the size of future rate cuts.

The USD DXY index fell a chunky 0.8% on Friday to 100.7, taking it just below the end-December 2023 low, with the levels just below 100 just over a year ago now looking like a key support level. Against the backdrop of higher risk appetite and higher commodity prices, the NZD and AUD outperformed, seeing the NZD up 1½% for the day to just over 0.6230, its highest level since January and breaking the key 0.6220 resistance level. We will need a few more trading days to determine whether that is a sustained break and, if so, then the December high just under 0.6370 comes into play.

The AUD met some resistance a tick below 0.68, as it did in July, while NZD/AUD was slightly higher at 0.9170. EUR and GBP made fresh highs for the year but NZD crosses were higher, at 0.4720 and 0.5570 respectively. BoE Governor Bailey, speaking at Jackson Hole, said it was too early to declare victory on inflation but the risks of persistent inflation appear to be receding and he largely repeated the policy message from the last meeting. JPY was also a strong performer, with USD/JPY down 1.3% to 144.40 while NZD/JPY closed the week at 90.

Supporting the yen, BoJ Governor Ueda played with a straight bat under grilling from lawmakers. He stuck to the script of the BoJ needing to adjust the degree of easing – central bank-speak for a further increase in the policy rate from a low level – and he played down the significance of the July rate hike on market turmoil, citing US economic data as a key catalyst. Earlier in the day, Japan CPI data

showed the headline rate steady at 2.8% y/y against market expectations for a tick down, while the core measures were in line – the ex-fresh food measure ticking higher to 2.8% and the ex-fresh food and energy measure down 3 ticks to 1.9%.

In other news, Independent presidential candidate Robert F. Kennedy Jr. said he would suspend his election bid and endorse Trump, as the previous day’s media reports had indicated. Polls suggest this will help Trump’s chance of victory at the margin and this was reflected in betting markets at the end of last week.

The domestic rates market remained quiet on Friday, with no change in the 2-year swap rate at 3.87% and the 10-year rate up 3bps to 3.91%. NZGB yields were up 1-2bps across the curve. Retail sales data confirmed the dire conditions facing the sector, with real sales down 1.2% q/q, making it nine contractions out of the past ten quarters and adding to chance that Q2 GDP will be negative when reported, as widely expected. Real retail sales per capita are down a massive 13.7% from the peak over two years ago, making it a lot worse than the 10% contraction recorded during the global financial crisis.

During the weekend Middle East tensions rose a notch with Israel and Lebanon exchanging a volley of missiles against each other. The WSJ reports that the exchange was

a significant show of force but initially appeared to result in few casualties and limited damage. Hezbollah said Sunday its operation for the day had concluded while Israel said its move was defensive, intended to pre-empt a Hezbollah attack. There is hope that tensions won’t be escalated any further.

In the day ahead there are only second-tier data releases, including Germany’s IFO survey, US durable goods orders and consumer confidence. In the week ahead the key economic releases will be euro area CPI, Canadian GDP and US PCE deflators at the end of the week. Nvidia’s earnings announcement mid-week is also a key event on the calendar.

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Coming Up

		Period	Cons.	Prev.	NZT
CH	1yr MT lending facility rate (%)	Aug	2.3	2.3	13:20
GE	IFO expectations	Aug	85.8	86.9	20:00
US	Durable goods orders (m/m%)	Jul	4.9	-6.7	00:30
US	Durables orders extransport.	Jul	0.0	0.4	00:30
US	Conf. Board consumer confid.	Aug	100.6	100.3	02:00

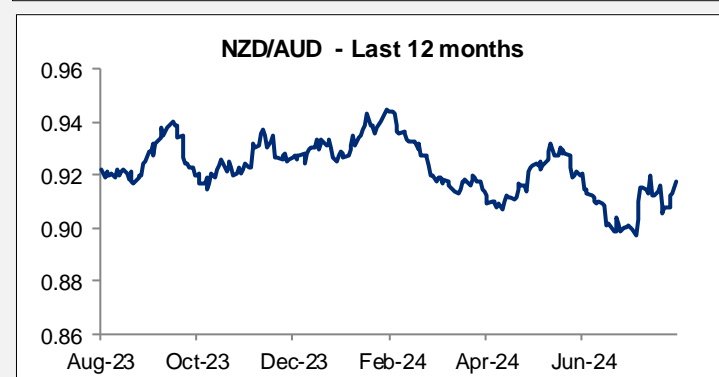
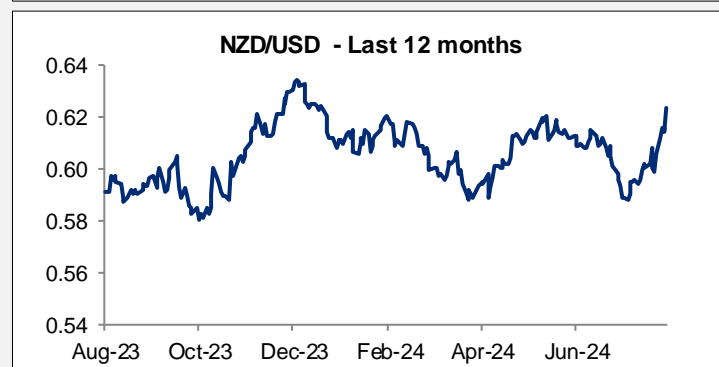
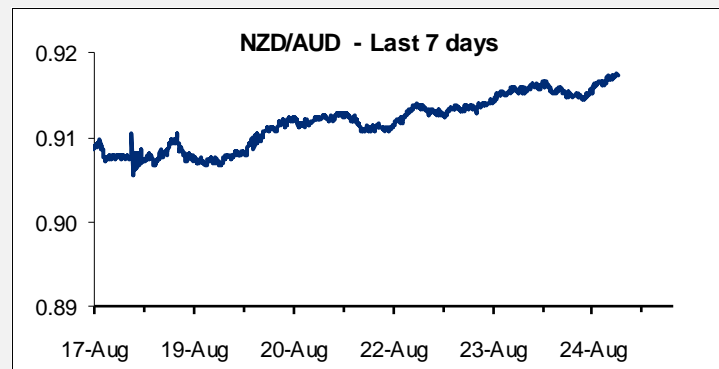
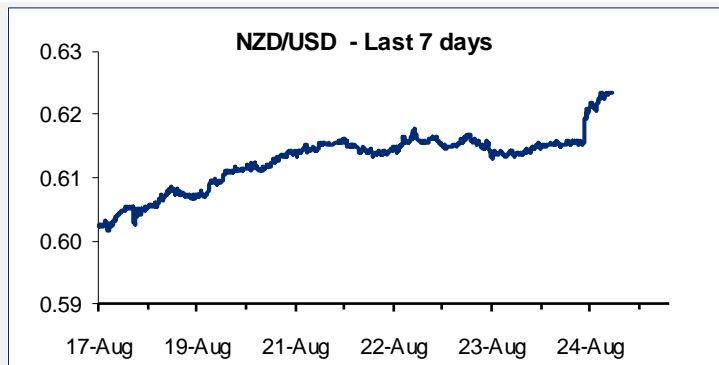
Source: Bloomberg, BNZ

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	0.6235	+1.5	0.6148	0.6237	CHF	0.8479	-0.5	5,635	+1.1	27.0	Oil (Brent)	78.98	+2.3	
AUD	0.6797	+1.3	0.6717	0.6799	SEK	10.180	-0.7	41,175	+1.1	19.4	Oil (WTI)	74.83	+2.5	
EUR	1.1193	+0.7	1.1105	1.1201	NOK	10.463	-1.3	17,878	+1.5	30.3	Gold	2508.4	+1.2	
GBP	1.3217	+0.9	1.3109	1.3230	HKD	7.796	-0.0	Stoxx 50	4,909	+0.5	15.1	HRC steel	672.0	+0.0
JPY	144.39	-1.3	144.05	146.48	CNY	7.121	-0.3	FTSE	8,328	+0.5	13.8	CRB	278.7	+1.5
CAD	1.3509	-0.8			SGD	1.301	-0.7	DAX	18,633	+0.8	18.5	Wheat Chic.	528.0	-1.4
NZD/AUD	0.9172	+0.2			IDR	15,492	-0.7	CAC 40	7,577	+0.7	4.6	Sugar	18.39	+3.0
NZD/EUR	0.5570	+0.9			THB	33.94	-1.7	Nikkei	38,364	+0.4	21.3	Cotton	71.29	+2.4
NZD/GBP	0.4717	+0.6			KRW	1,327	-1.2	Shanghai	2,854	+0.2	-6.8	Coffee	247.3	+1.8
NZD/JPY	90.02	+0.3			TWD	31.97	+0.0	ASX 200	8,024	-0.0	12.8	WM powder	3450	-0.1
NZD/CAD	0.8422	+0.8			PHP	56.42	+0.1	NZX 50	12,530	+0.5	9.3	Australian Futures		
NZ TWI	71.34	+0.9						VIX Index	15.86	-9.6	-0.8	3 year bond	96.47	-0.04
												10 year bond	96.11	0.05
Interest Rates						NZ Government Bonds				NZ BKBM and Swap Yields				
Rates		Swap Yields		Benchmark 10 Yr Bonds		Last		Chg		Last			Chg	
	Cash	3Mth	2 Yr	10 Yr	USD	Last	Net Day							
USD	5.50	5.33	3.71	3.36	USD	3.80	-0.05	15-May-26	4.04	0.01	BKBM 1-mth	5.36	0.00	
AUD	4.35	4.35	3.69	4.03	AUD	3.92	0.03	15-Apr-27	3.81	0.01	BKBM 3-mth	5.24	-0.00	
NZD	5.25	5.24	3.87	3.91	NZD	4.20	0.02	15-May-28	3.80	0.01	1 year	4.48	-0.00	
EUR	3.75	3.54	2.67	2.48	GER	2.23	-0.02	20-Apr-29	3.83	0.01	2 year	3.87	0.00	
GBP	5.00	5.30	4.08	3.62	GBP	3.91	-0.05	15-May-30	3.91	0.02	3 year	3.67	0.01	
JPY	0.23	-0.03	0.44	0.88	JPY	0.90	0.02	15-May-31	4.01	0.02	5 year	3.65	0.01	
CAD	4.50	4.97	3.17	2.91	CAD	3.03	-0.04	15-May-32	4.10	0.02	7 year	3.76	0.02	
								14-Apr-33	4.16	0.02	10 year	3.91	0.03	
								15-May-34	4.20	0.02	15 year	4.09	0.03	
								15-May-35	4.26	0.02				
								15-May-37	4.41	0.01				
								15-May-41	4.58	0.01				
								15-May-51	4.62	0.01				
								15-May-54	4.65	0.01				

* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer
Rates at NY close
Source: Bloomberg

NZD exchange rates

24/08/2024	NY close	Prev. NY close
USD	0.6235	0.6137
GBP	0.4717	0.4688
AUD	0.9172	0.9153
EUR	0.5570	0.5523
JPY	90.02	89.78
CAD	0.8422	0.8356
CHF	0.5285	0.5230
DKK	4.1555	4.1208
FJD	1.3787	1.3714
HKD	4.8593	4.7854
INR	52.29	51.52
NOK	6.5213	6.5053
PKR	173.74	170.79
PHP	35.11	34.68
PGK	2.4253	2.3870
SEK	6.3454	6.2904
SGD	0.8110	0.8043
CNY	4.4385	4.3861
THB	21.36	21.08
TOP	1.4499	1.4426
VUV	74.42	73.15
WST	1.6934	1.6707
XPF	67.06	66.37
ZAR	11.0347	11.0565



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	0.74	0.96
3 Months	1.32	1.85
6 Months	0.26	1.26
9 Months	-2.32	-0.03
1 Year	-4.13	-1.13

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-6.47	-5.94
3 Months	-15.61	-14.42
6 Months	-23.05	-20.50
9 Months	-26.20	-20.91
1 Year	-25.43	-18.32

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