

Research Markets Today

28 May 2024

Events Round-Up

GE: IFO expectations, May: 90.4 vs. 90.8 exp.

Good Morning

It has been a quiet start to the week with US and UK markets closed for holidays. Of note, some dovish comments from key ECB members pushed down European yields but with limited impact on the euro. US equity futures are slightly higher, and US 10-year Treasury futures are little changed. The NZD pushed up to fresh two-month highs just over 0.6150.

With the US and UK on holiday, the news headlines are Europe-centric and the market has honed in on dovish comments by key ECB Governing Council members.

France's central bank Governor Villeroy de Galhau said that he favoured "maximum optionality" after next week's "done deal" cut to rates and hence he wasn't willing to exclude a follow up cut in July, saying "let us keep our freedom on the timing and pace". This was a dovish comment, as other key ECB GC members have been hosing down expectations for a follow-up cut in July. He said the ECB has "significant room" to loosen toward a neutral setting between 2-2.5%.

Earlier, ECB Chief Economist Lane gave a strong signal for a rate cut next week and added that policy will "still need to be restrictive all year long...but within the zone of restrictiveness we can move down somewhat." In terms of cutting rates ahead of the US, he noted the ECB would take any "significant" exchange rate move into account, but pointed out there has been very little movement in this direction. In fact, he noted that the delay to Fed rate cuts had pushed up bond yields, spilling over into European rates, and implied that this could mean the need for lower than otherwise ECB short rates.

The dovish ECB comments saw the market price in a little more chance of rate cuts this year, with 61bps of cuts priced, versus 58bps as at the end of last week. European yields were lower across the curve, with Germany's 2-year rate down 5bps and 10-year rate down 4bps.

There was no sustained impact on the euro, the bigger picture being one of broad USD weakness and EUR is up slightly to 1.0860. In economic data, Germany's business

outlook, as measured by the IFO expectations indicator, rose by less than a point in May to 90.4, a fourth successive monthly increase, consistent with a modest improvement in the economic outlook.

At a conference, both BoJ Governor Ueda and Deputy Governor Uchida's speeches pointed in the direction of tighter policy ahead, although continuing to run of line of proceeding cautiously. Ueda cautioned that after such a long period without major changes in rates in Japan, it was difficult to assess the impact on the economy and what a neutral interest rate might be. There was little impact on the market from these comments, although JGB yields continue to push up to fresh multi-year highs while the yen is only slightly stronger against the weak USD backdrop.

The NZD and AUD have outperformed, both up close to ½% from last week's close. It has been a steady grind higher from the Asian open, with a fresh two-month high of 0.6153, one pip higher than the post-RBNZ level seen last week. The AUD is around 0.6660 and NZD/AUD is flat around 0.9240. NZD/JPY made a fresh 17-year high just over 96.5. NZD/EUR traded at a fresh two-month high of 0.5670.

The domestic rates market was quiet although there was some cross-market underperformance on further underwinding of positions following last week's hawkish RBNZ update. The 2-year swap rate rose 2bps to 5.13% while the 10-year rate was flat at 4.62%. NZGB yields were flat to slightly higher across the curve. Focus turns to Thursday's Budget, where larger projected deficits suggest a significant increase in the borrowing programme.

The economic calendar remains light over the next 24 hours, with Australian retail sales and US consumer confidence data released.

jason.k.wong@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
AU	Retail sales (m/m%)	Apr	0.3	-0.4	13:30
US	Conf. Board consumer confid.	May	96.0	97.0	02:00

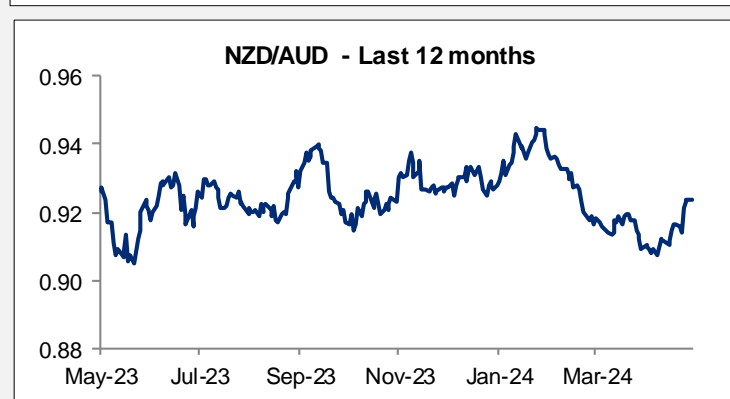
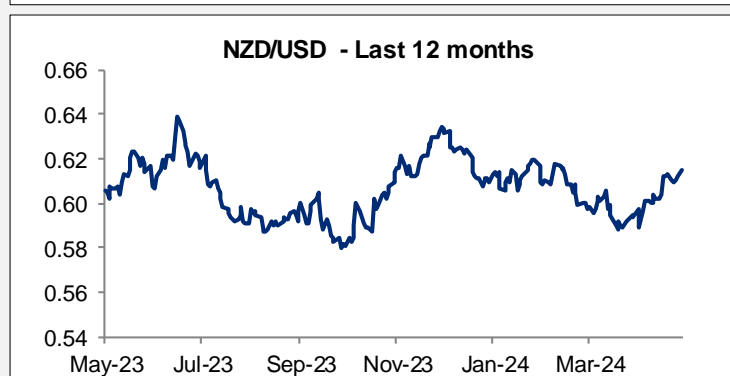
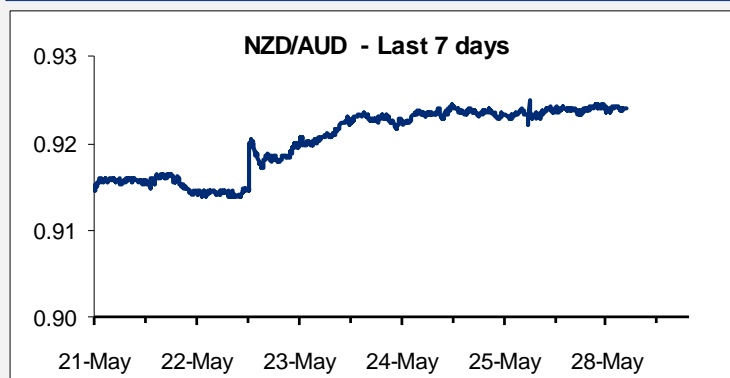
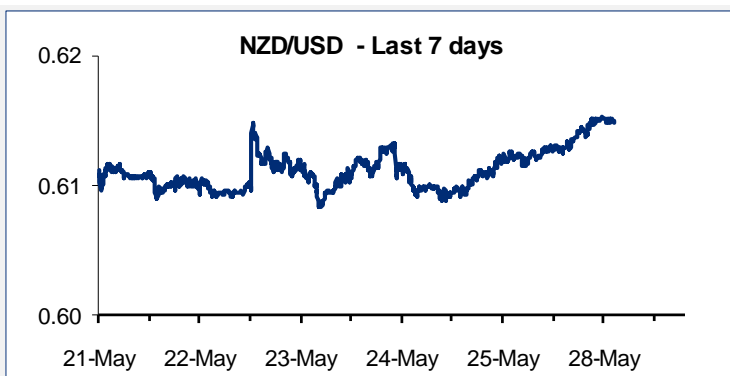
Source: Bloomberg, BNZ

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	0.6150	+0.5	0.6127	0.6153	CHF	0.9135	-0.1	S&P 500	5,305	+0.7	26.1	Oil (Brent)	83.10	+1.2
AUD	0.6656	+0.4	0.6633	0.6660	SEK	10.613	-0.6	Dow	39,070	+0.0	18.1	Oil (WTI)	78.55	+1.1
EUR	1.0857	+0.1	1.0841	1.0867	NOK	10.499	-0.8	Nasdaq	16,921	+1.1	30.4	Gold	2352.5	+0.8
GBP	1.2769	+0.3	1.2734	1.2778	HKD	7.807	-0.1	Stoxx 50	5,059	+0.5	16.6	HRC steel	789.0	+0.0
JPY	156.87	-0.1	156.71	156.96	CNY	7.245	+0.0	FTSE	8,318	-0.3	9.1	CRB	294.3	+0.2
CAD	1.3632	-0.2			SGD	1.349	-0.1	DAX	18,775	+0.4	17.5	Wheat Chic.	717.5	-0.1
NZD/AUD	0.9240	+0.0			IDR	16,072	+0.5	CAC 40	8,132	+0.5	11.1	Sugar	18.41	+0.8
NZD/EUR	0.5665	+0.4			THB	36.60	-0.3	Nikkei	38,900	+0.7	25.8	Cotton	80.52	-1.5
NZD/GBP	0.4816	+0.2			KRW	1,364	-0.4	Shanghai	3,124	+1.1	-2.8	Coffee	218.3	+1.2
NZD/JPY	96.48	+0.4			TWD	32.17	-0.3	ASX 200	7,788	+0.8	8.9	WM powder	3225	-0.2
NZD/CAD	0.8384	+0.2			PHP	58.12	-0.1	NZX 50	11,756	-0.2	-0.6	Australian Futures		
NZ TWI	72.36	+0.3						VIX Index	12.36	+3.6	-31.1	3 year bond	96.04	0.02
Interest Rates												10 year bond 95.72 0.03		
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	5.60	4.84	4.09	USD	4.47	-0.01	15-May-26	4.90	0.02	BKBM 1-mth	5.60	0.00	
AUD	4.35	4.34	4.20	4.45	AUD	4.28	-0.03	15-Apr-27	4.73	0.01	BKBM 3-mth	5.63	0.01	
NZD	5.50	5.63	5.13	4.62	NZD	4.79	0.01	15-May-28	4.66	0.01	1 year	5.53	0.02	
EUR	4.00	3.81	3.37	2.80	GER	2.55	-0.04	20-Apr-29	4.61	0.01	2 year	5.13	0.02	
GBP	5.25	5.30	4.74	3.96	GBP	4.26	0.00	15-May-30	4.62	0.00	3 year	4.84	0.02	
JPY	0.08	-0.03	0.42	1.05	JPY	1.03	0.02	15-May-31	4.67	0.01	5 year	4.61	0.01	
CAD	5.00	5.24	4.58	3.93	CAD	3.62	0.03	15-May-32	4.72	0.00	7 year	4.57	0.00	
												10 year 4.62 -0.00		
												15 year 4.75 -0.01		
						NZ Inflation-Indexed Bonds								
						Sep-30 2.34 -0.02			15-May-35 4.83 0.01					
						Sep-35 2.66 -0.02			15-May-37 4.93 0.01					
						Sep-40 2.85 -0.02			15-May-41 5.03 0.01					
									15-May-51 5.04 0.01					
									15-May-54 5.07 0.01					

* These are indicative r 06:58
 please confirm rates with your BNZ dealer
 Rates are as of: NZT
 Source: Bloomberg

NZD exchange rates

28/05/2024 6:58 am		Prev. NY close
USD	0.6150	0.6121
GBP	0.4816	0.4806
AUD	0.9240	0.9235
EUR	0.5665	0.5643
JPY	96.48	96.09
CAD	0.8384	0.8364
CHF	0.5618	0.5599
DKK	4.2263	4.2108
FJD	1.3917	1.3870
HKD	4.8015	4.7826
INR	51.13	50.86
NOK	6.4568	6.4768
PKR	171.16	169.03
PHP	35.74	35.62
PGK	2.3563	2.3461
SEK	6.5271	6.5338
SGD	0.8295	0.8263
CNY	4.4554	4.4338
THB	22.52	22.45
TOP	1.4289	1.4182
VUV	74.08	73.75
WST	1.6674	1.6572
XPF	67.76	67.50
ZAR	11.2880	11.2733



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.26	0.18
3 Months	-0.50	0.12
6 Months	-2.37	-0.36
9 Months	-4.44	-2.05
1 Year	-6.06	-3.06

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-8.79	-7.87
3 Months	-25.64	-24.16
6 Months	-49.57	-45.17
9 Months	-70.55	-64.53
1 Year	-86.96	-78.38

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.