

Research Markets Today

1 September 2023

Events Round-Up

NZ: ANZ own activity outlook, Aug: 11.2 vs. 0.8 prev.
 CH: Manufacturing PMI, Aug: 49.7 vs. 49.2 exp.
 CH: Non-manufacturing PMI, Aug: 51.0 vs. 51.2 exp.
 EC: CPI (y/y%), Aug: 5.3 vs. 5.1 exp.
 EC: CPI core (y/y%), Aug: 5.3 vs. 5.3 exp.
 US: Initial jobless claims (k), wk to 26-Aug: 228 vs. 235 exp.
 US: Personal income (m/m%), Jul: 0.2 vs. 0.3 exp.
 US: Real personal spending (m/m%), Jul: 0.6 vs. 0.5 exp.
 US: PCE core deflator (m/m%), Jul: 0.2 vs. 0.2 exp.
 US: PCE core deflator (y/y%), Jul: 4.2 vs. 4.2 exp.
 US: Chicago PMI, Aug: 48.7 vs. 44.2 exp.

Good Morning

In-line core inflation in the Euro area and US PCE deflator data confirming the current disinflationary pulse have helped support global bonds markets. Declines in European yields have led the way, and this sees EUR and GBP underperform. The NZD has been range-trading, with no spillover from a stronger yuan after further support measures to revive China's property market. Equity markets show modest movements.

Overnight, US data releases were mixed. The Fed's preferred measure of underlying inflation, the core PCE deflator, rose 0.2% m/m in July, the same increase in June and marking the smallest back-to-back increase since late 2020, consistent with the core CPI data earlier in the month. This took the annualised pace over the three months to July down to 3.3%, the weakest in nearly 2½ years, playing to the disinflation narrative.

Activity data came in slightly stronger than expected. Real personal spending rose 0.6% m/m in July, consistent with previously released retail sales data which showed that private consumption got off to a strong start in Q3. The Chicago PMI looked to be boosted by good gains in aircraft orders for Boeing. Initial jobless claims slipped 4k last week to 228k, consistent with a flat trend over recent months, not really indicating much easing in labour market pressures that other indicators show.

Market reaction to the US data releases was muted, ahead of the more important employment report tonight. The US

10-year Treasury rate drifted down a touch during the Asian trading session and that trend continued through the night, seeing it down 2bps for the day to 4.09%, after falling to as low as 4.07%, back down to a level last seen about three weeks ago.

There has been more price action in European markets following the release of Euro area CPI data and some dovish commentary from central bankers. After higher than expected German and Spanish CPI data, there were fears that the Euro area data would also be stronger. While the annual headline increase was two-tenths higher than expected at 5.3%, the core rate was in line at the same figure and down from 5.5% previously, and this was a relief. The ECB has been more focused on the core than the headline rate and even though progress has been slow in core inflation to moderate and it remains far too high, the market put on some rose-tinted glasses and presumed that this could see less chance of a September hike.

For that meeting, just 6bps is now priced, down from 14bps at the close yesterday and only a cumulative 16bps is priced through to the end of the year, down from 23bps. One of the more respected (by the market) ECB Board members, Schnabel, made comments that were consistent with the ECB either increasing rates further or keeping rates on hold. She noted that recent developments "point to growth prospects being weaker than foreseen in the baseline scenario...but underlying price pressures remain stubbornly high" and given the uncertainty "we can also not commit to future actions". Without showing conviction in a September hike, her comments, alongside the in-line core CPI print, helped fuel lower European yields, with Germany's 2-year rate down 10bps and 10-year rate down 8bps on the day.

Adding to the impetus for lower European yields, the BoE's chief economist Pill, speaking in Capetown, said that he preferred a "Table Mountain" profile for UK rates, where they remained moderately high for some time, rather than escalating rapidly then dropping rapidly. UK economists have been sceptical of market pricing that has seen rates move up to as high as 6% before dropping back down and Pill's comments helped smooth out the profile. UK gilt yields fell 6-9bps across the curve and with now "only" about 50bps priced for future rate rates over coming months.

Lower European yields see EUR and GBP on the weaker side of the ledger, with EUR down 0.7% overnight to 1.0850 and GBP down 0.5% to 1.2670.

In other news overnight, China made another incremental change to policy settings, allowing large cities to cut minimum down payments for first homebuyers to 20% (from 30% or higher) and down to 30% for second-time purchasers (previously, these could be as high as 80%). Mortgage rates will also be cut with cities deciding their own rate according to market conditions. It was another step by policy makers to try to revive the property market and the announcement triggered a lift in the yuan, with USD/CNH falling from around 7.295 to below 7.28. There was no obvious spillover impact on the NZD or AUD.

During local trading hours, after the recent barrage of much weaker than expected economic data, China's composite PMI showed signs of consolidation, with an insignificant 0.2pt increase to 51.3 driven by a small lift in manufacturing to 49.7 and a small fall in non-manufacturing to 51.0.

Despite the heavy newsflow that has affected some currencies, the NZD has been range-trading and currently sits at 0.5960, little changed from this time yesterday. The AUD is little changed around 0.6480 and NZD/AUD is steady around 0.92. With weak European currencies, NZD/GBP has regained 0.47 while NZD/EUR is approaching 0.55. The yen has been a beneficiary of the lower global rates backdrop and stronger yuan, seeing USD/JPY below 145.50 and NZD/JPY down to 86.7.

The domestic rates market saw some receiving interest in the belly of the curve and this dragged down NZGB yields heading into the tender. Despite lower yields heading into the supply event, the tender went well, with bid-cover ratios above 3 for the longer bonds on offer, 2031s and 2041s, with the shorter end (2028s) proving again to show the weakest demand. NZGBs ended the day down 4-6bps in yield, with the 10-year rate closing at 4.87%, well down from the 5.15% peak just over a week ago. Swap rates closed the day down 4-5bps.

Earlier in the session, the ANZ business outlook survey showed further rises in activity indicators off a low base and further modest easing in inflationary pressure. There was little market reaction to the release.

Furthermore, in an interview with Bloomberg News, Nicola Willis (National's finance spokesperson) said that a National-led government would quickly reinstate the RBNZ's previous sole mandate on inflation targeting, removing the current dual objective which includes supporting maximum sustainable employment. She said this "would build confidence that the Reserve Bank will be focused on that inflation mandate". The prevailing wisdom is that including employment in the mandate hasn't had much impact on the RBNZ's policy decisions over the years so removing it won't make much difference, even if it would bring more clarity to monetary policy.

In the day ahead the focus will be on tonight's US employment report, with the consensus picking a further moderation in nonfarm payrolls growth to 170k, a steady unemployment rate of 3.5% and wage inflation ticking down slightly. Canadian GDP and the US ISM manufacturing survey will also be released. Ahead of that during local trading hours, are NZ consumer confidence and China's Caixin PMI manufacturing index.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	ANZ consumer confidence	Aug	83.7		10:00
AU	Home loans value (m/m%)	Jul	0.0	-1.0	13:30
CH	Caixin PMI manufacturing	Aug	49.0	49.2	13:45
CA	GDP (ann'lids q/q%)	Q2	1.2	3.1	00:30
US	Chg in nonfarm payrolls (k)	Aug	170	187	00:30
US	Unemployment rate (%)	Aug	3.5	3.5	00:30
US	Avg hourly earnings (m/m%)	Aug	0.3	0.4	00:30
US	Avg hourly earnings (y/y%)	Aug	4.3	4.4	00:30
US	ISM manufacturing	Aug	47.0	46.4	02:00

Source: Bloomberg, BNZ

Indicative overnight ranges (*)								Other FX			Equities				Commodities**		
	Last	% Day	Low	High		Last	% Day	Major Indices		Price		Last	Net Day				
									Last	% Day	% Year						
NZD	0.5960	+0.1	0.5931	0.5971	CHF	0.8831	+0.5	S&P 500	4,515	+0.0	14.2	Oil (Brent)	86.86	+1.1			
AUD	0.6478	+0.0	0.6461	0.6495	SEK	10.942	+0.9	Dow	34,758	-0.4	10.3	Oil (WTI)	83.34	+2.1			
EUR	1.0847	-0.7	1.0835	1.0909	NOK	10.630	+0.4	Nasdaq	14,063	+0.3	19.0	Gold	1949.1	-0.3			
GBP	1.2666	-0.4	1.2653	1.2722	HKD	7.843	-0.1	Stoxx 50	4,297	-0.4	22.2	HRC steel	729.0	+0.0			
JPY	145.40	-0.6	145.35	146.23	CNY	7.259	-0.4	FTSE	7,439	-0.5	2.1	CRB	281.1	+0.5			
CAD	1.3516	-0.1			SGD	1.352	+0.2	DAX	15,947	+0.3	24.2	Wheat Chic.	601.3	-0.9			
NZD/AUD	0.9200	+0.0			IDR	15,230	-0.1	CAC 40	7,317	-0.6	19.5	Sugar	25.06	-1.1			
NZD/EUR	0.5495	+0.8			THB	35.03	-0.1	Nikkei	32,619	+0.9	17.9	Cotton	88.10	-0.5			
NZD/GBP	0.4706	+0.5			KRW	1,323	-0.0	Shanghai	3,120	-0.6	-2.0	Coffee	154.5	-0.6			
NZD/JPY	86.66	-0.5			TWD	31.88	+0.1	ASX 200	7,305	+0.1	6.7	WM powder	2525	-0.4			
NZD/CAD	0.8056	-0.0			PHP	56.60	-0.3	NZX 50	11,554	+0.3	-0.5	Australian Futures					
NZ TWI	69.86	+0.0										3 year bond	96.27	0.05			
Interest Rates													10 year bond	96.02	0.05		
Rates		Swap Yields			Benchmark 10 Yr Bonds		NZ Government Bonds			NZ Swap Yields							
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day		Last		Last						
USD	5.50	5.67	4.75	3.81	USD	4.08	-0.03	15-Apr-25	5.45	-0.04	1 year	5.73	-0.01				
AUD	4.10	4.13	4.10	4.36	AUD	4.03	-0.05	15-Apr-27	5.00	-0.05	2 year	5.44	-0.04				
NZD	5.50	5.65	5.44	4.71	NZD	4.87	-0.06	15-May-28	4.89	-0.05	5 year	4.83	-0.05				
EUR	3.75	3.80	3.63	3.04	GER	2.47	-0.08	15-May-31	4.87	-0.06	7 year	4.73	-0.04				
GBP	5.25	5.60	5.50	4.31	GBP	4.36	-0.06	14-Apr-33	4.87	-0.06	10 year	4.71	-0.04				
JPY	-0.06	-0.03	0.13	0.81	JPY	0.65	-0.00	15-May-41	5.06	-0.06	15 year	4.78	-0.04				
CAD	5.00	5.50	5.18	4.08	CAD	3.56	-0.01	15-May-51	5.05	-0.06							

* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer

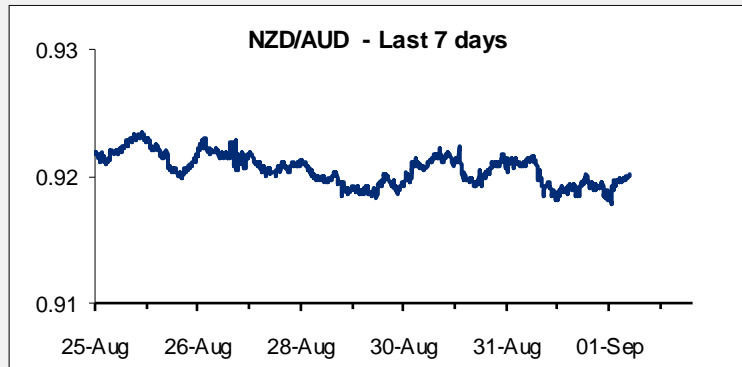
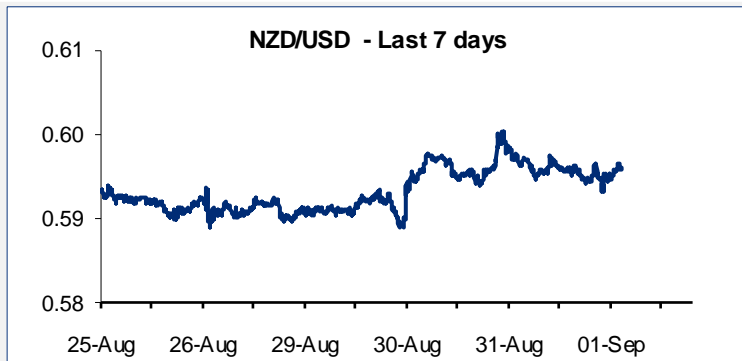
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 07:04

Source: Bloomberg

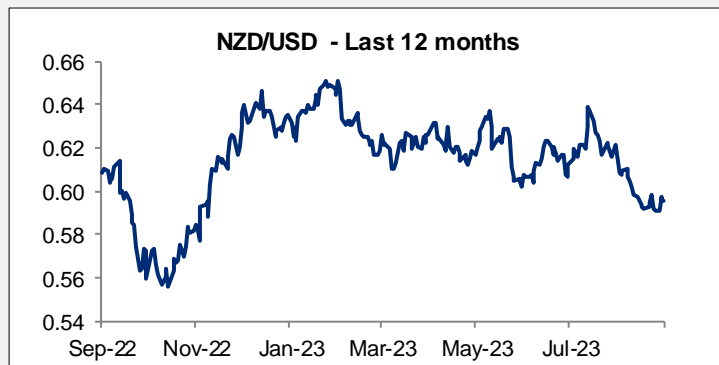
NZD exchange rates

1/09/2023	7:04 am	Prev. NY close
USD	0.5960	0.5955
GBP	0.4706	0.4681
AUD	0.9200	0.9197
EUR	0.5495	0.5452
JPY	86.66	87.09
CAD	0.8056	0.8058
CHF	0.5263	0.5231
DKK	4.0957	4.0631
FJD	1.3493	1.3525
HKD	4.6743	4.6732
INR	49.34	49.27
NOK	6.3356	6.3079
PKR	182.15	181.26
PHP	33.73	33.79
PGK	2.1439	2.1452
SEK	6.5213	6.4569
SGD	0.8057	0.8037
CNY	4.3262	4.3394
THB	20.86	20.90
TOP	1.3822	1.3897
VUV	72.70	72.74
WST	1.6389	1.6136
XPF	65.28	65.02
ZAR	11.2487	11.1247



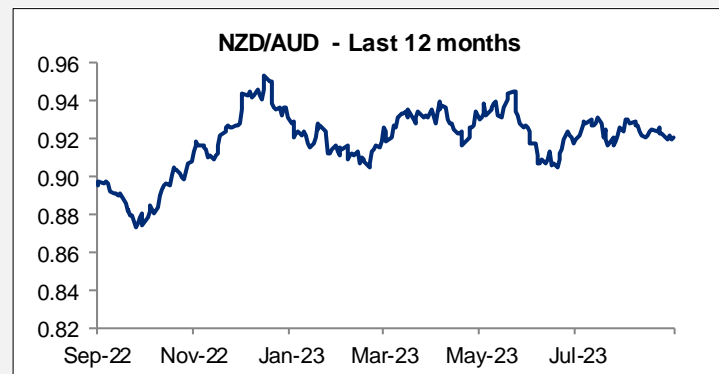
NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	0.20	0.60
3 Months	0.73	1.38
6 Months	0.67	1.85
9 Months	-2.28	-0.28
1 Year	-7.61	-4.60



NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-10.02	-9.12
3 Months	-29.21	-27.73
6 Months	-59.48	-56.29
9 Months	-87.66	-82.46
1 Year	-112.90	-104.18



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