

Research Markets Today

14 September 2023

Events Round-Up

NZ: REINZ house sales (y/y%), Aug: 9.2 vs. 1.5 prev.
 NZ: Food prices (m/m%), Aug: 0.5% vs. -0.5 prev.
 UK: GDP (m/m%), Jul: -0.5 vs. -0.2 exp.
 UK: Industrial production (m/m%), Jul: -0.7 vs. -0.7 exp.
 EC: Industrial production (m/m%), Jul: -1.1 vs. -0.8 exp.
 US: CPI (m/m%), Aug: 0.6 vs. 0.6 exp.
 US: CPI ex food and energy (m/m%), Aug: 0.3 vs. 0.2 exp.
 US: CPI (y/y%), Aug: 3.7 vs. 3.6 exp.
 US: CPI ex food and energy (y/y%), Aug: 4.3 vs. 4.3 exp.

Good Morning

The widely anticipated US CPI report for August printed higher than expected but the response across financial markets was largely subdued. US equities were little changed while the lasting impact on currency and bond markets was limited.

US consumer prices rose 3.7% on an annualised basis, up from 3.2% in July and above consensus forecasts of 3.6%. The increase was predominantly driven by a 10.6% jump in gasoline prices. On a monthly basis, headline CPI increased 0.6% while core prices increased 0.3%. The core reading was above 0.2% consensus estimates due to rising prices for airfares, car rental and motor insurance.

Market pricing for the Fed funds rate was little changed following the CPI data and continues to imply little chance of a hike next week and about 50% odds of a 25bp increase in November.

Eurozone Industrial production fell 1.1% in July which was more than expected raising concerns about activity ahead of the finely balanced ECB monetary policy decision this evening. Markets are pricing a ~65% chance of a 25bp hike.

A Reuters news report suggested that the ECB's new set of macroeconomic projections will show inflation remaining above 3% next year. However, this is balanced by weak economic activity. Recent PMI data points to a contraction in both manufacturing and services activity. Meanwhile, GDP is tracking below the ECB's June projections suggesting downside risks to its updated growth forecasts.

The UK economy contracted 0.5% m/m in July which was more than expected with adverse weather and public sector strikes impacting spending and activity. The major sectors of the economy – services, manufacturing, and construction – all fell in July. Despite the weaker data, the market continues to see a high chance of the Bank of England tightening by a further 25bps at its policy meeting next week.

US treasuries initially sold off following the higher-than-expected CPI data. 2-year yields increased to 5.08% from 5.04% ahead of the release. There was a quick reversal off the yield highs with the move lower extending to 4.96%. In similar price action, yields on 10-year treasuries traded as high as 4.34% but failed to breach cycle highs, and reversed lower. Despite the offering the highest yield since 2011, the US\$20 billion 30-auction tailed by a full basis point with primary dealers getting high allocations.

In currency markets, the US Dollar was little changed despite the upside inflation surprise. An initial rally failed to extend higher and reversed with the move in front end US rates. In the majors, EUR/USD was stable near 1.0750 while a brief spike in USD/JPY to 147.70 was short lived. GBP/USD fell to fresh 3-month lows following the weaker than expect growth data before retracing the losses.

The Yuan made gains in Asian trade yesterday which has extended overnight. China will increase bill sales in Hong Kong to soak up yuan liquidity making it more expensive to short the currency. Implied 3-month CNH interest rates have moved sharply higher and are now above 4%. This is the latest in a series of measures undertaken by the PBOC aimed at stabilising the Yuan and to discourage speculative short positions.

After a period of volatility around the US CPI release, NZD/USD settled higher in overnight trade moving upwards 0.5925. The NZD is higher on the cross rates with NZD/AUD back above 0.9200 albeit in a continuation of largely rangebound trade during September.

NZ government bonds were unchanged in the local session yesterday with 10-year bond yields stable at 4.98%. Bonds outperformed swaps which were 2-4bps higher in the belly of the curve. Australian 3 and 10-year bond futures are about 3bp lower in yield since the local close yesterday.

New Zealand Debt Management is tendering NZ\$500 million of nominal NZGBs today split across 15 May 2026 (\$200m), 15 May 2031 (\$200m) and 15 April 2041 (\$100m). In addition, inflation indexed bonds will be offered for the first time since May.

Australian employment data is released today and is expected to rebound from the weak July outturn. Later this evening, the focus will be on the ECB, as previously mentioned, alongside US PPI, retail sales and jobless claims data. Initial jobless claims are expected to increase after last week's print was depressed by the impact of Hurricane Idalia.

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Coming Up

		Period	Cons.	Prev.	NZT
AU	Employment Change	Aug	25	-14.6	13:30
AU	Unemployment Rate	Aug	3.7	3.7	13:30
EC	ECB Deposit Facility Rate	Sep	3.75	3.75	00:15
US	Retail Sales Advance MoM	Aug	0.1	0.7	00:30
US	Retail Sales Ex Auto and Gas	Aug	-0.1	1	00:30
US	Initial Jobless Claims	Sep 9	225	216	00:30
US	PPI Ex Food and Energy MoM	Aug	0.2	0.3	00:30
US	PPI Ex Food and Energy YoY	Aug	2.2	2.4	00:30

Source: Bloomberg, BNZ

Indicative overnight ranges (*)								Other FX		Equities				Commodities**		
	Last	% Day	Low	High		Last	% Day	Major Indices				Price				
									Last	% Day	% Year		Last	Net Day		
NZD	0.5917	+0.2	0.5880	0.5927	CHF	0.8927	+0.2	S&P 500	4,477	+0.3	13.8	Oil (Brent)	91.78	-0.2		
AUD	0.6426	-0.0	0.6381	0.6434	SEK	11.115	+0.4	Dow	34,646	+0.0	11.4	Oil (WTI)	88.45	-0.3		
EUR	1.0742	-0.2	1.0711	1.0761	NOK	10.703	+0.3	Nasdaq	13,842	+0.5	19.0	Gold	1914.9	-0.2		
GBP	1.2502	+0.0	1.2436	1.2512	HKD	7.826	-0.0	Stoxx 50	4,223	-0.4	17.8	HRC steel	707.0	-1.7		
JPY	147.33	+0.2	147.17	147.73	CNY	7.272	-0.3	FTSE	7,526	-0.0	1.9	CRB	287.3	+0.4		
CAD	1.3556	+0.0			SGD	1.360	-0.0	DAX	15,654	-0.4	18.7	Wheat Chic.	597.0	+1.4		
NZD/AUD	0.9208	+0.2			IDR	15,370	+0.2	CAC 40	7,223	-0.4	15.6	Sugar	26.54	-0.8		
NZD/EUR	0.5508	+0.4			THB	35.71	+0.3	Nikkei	32,707	-0.2	17.6	Cotton	85.50	-2.3		
NZD/GBP	0.4733	+0.1			KRW	1,330	+0.2	Shanghai	3,123	-0.4	-3.5	Coffee	152.0	-0.3		
NZD/JPY	87.18	+0.4			TWD	31.95	-0.3	ASX 200	7,154	-0.7	4.8	WM powder	2905	+3.4		
NZD/CAD	0.8021	+0.2			PHP	56.72	+0.1	NZX 50	11,357	+0.5	-2.6	Australian Futures				
NZ TWI	69.74	+0.2										3 year bond	96.152	0.00		
												10 year bond	95.89	0.05		
Interest Rates								NZ Government Bonds				NZ Swap Yields				
	Rates		Swap Yields		Benchmark 10 Yr Bonds			Last		Last						
	Cash	3Mth	2 Yr	10 Yr	USD	Last	Net Day									
USD	5.50	5.67	4.87	3.94	USD	4.23	-0.05	15-Apr-25	5.51	0.00	1 year	5.75	0.02			
AUD	4.10	4.12	4.17	4.47	AUD	4.15	-0.02	15-Apr-27	5.10	0.00	2 year	5.50	0.01			
NZD	5.50	5.67	5.50	4.83	NZD	4.98	0.00	15-May-28	5.00	0.00	5 year	4.95	0.03			
EUR	3.75	3.82	3.77	3.19	GER	2.65	0.01	15-May-31	4.97	0.00	7 year	4.85	0.02			
GBP	5.25	5.57	5.29	4.25	GBP	4.35	-0.07	14-Apr-33	4.98	0.00	10 year	4.83	0.00			
JPY	-0.02	-0.03	0.21	0.88	JPY	0.71	0.00	15-May-41	5.19	0.00	15 year	4.89	0.00			
CAD	5.00	5.48	5.19	4.16	CAD	3.66	-0.04	15-May-51	5.19	0.00						

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

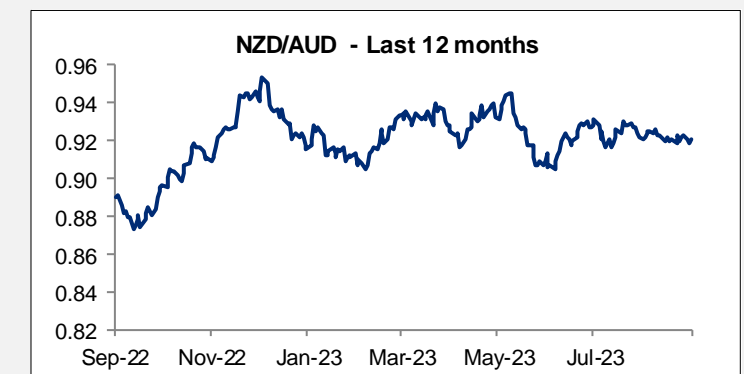
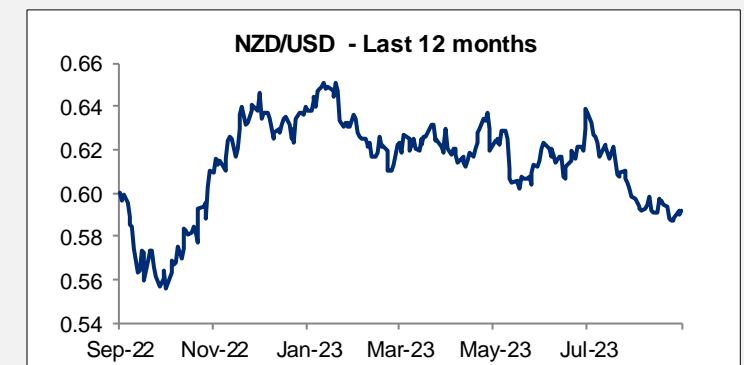
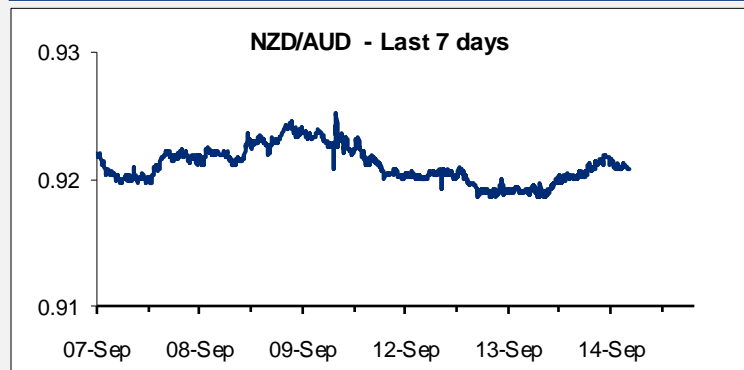
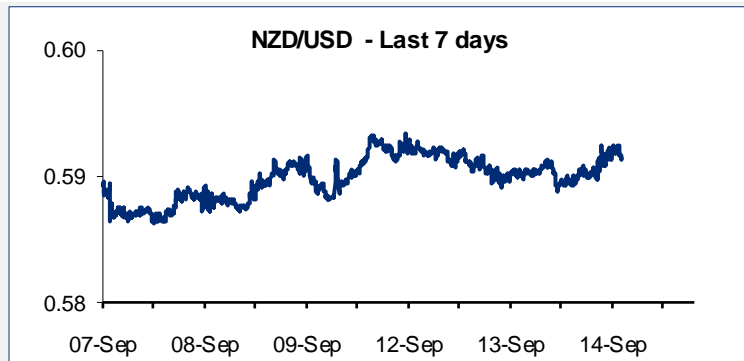
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:40

Source: Bloomberg

NZD exchange rates

14/09/2023	6:40 am	Prev. NY close
USD	0.5917	0.5904
GBP	0.4733	0.4727
AUD	0.9208	0.9188
EUR	0.5508	0.5490
JPY	87.18	86.84
CAD	0.8021	0.8002
CHF	0.5282	0.5262
DKK	4.1093	4.0955
FJD	1.3500	1.3479
HKD	4.6307	4.6211
INR	49.10	48.96
NOK	6.3331	6.3025
PKR	176.80	177.05
PHP	33.57	33.45
PGK	2.1438	2.1329
SEK	6.5767	6.5412
SGD	0.8048	0.8033
CNY	4.3027	4.3054
THB	21.16	21.04
TOP	1.3764	1.4034
VUV	72.65	72.36
WST	1.6115	1.6220
XPF	65.13	65.44
ZAR	11.1326	11.1687



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.18	0.28
3 Months	0.20	0.86
6 Months	0.42	1.88
9 Months	-1.41	0.99
1 Year	-5.45	-2.43

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-10.53	-9.58
3 Months	-29.40	-27.63
6 Months	-59.56	-55.90
9 Months	-87.04	-81.15
1 Year	-112.35	-103.62

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