

Research Markets Today

15 September 2023

Events Round-Up

- AU: Employment change (k), Aug: 65 vs. 25 exp.
- AU: Unemployment rate (%), Aug: 3.7 vs. 3.7 exp.
- EC: ECB deposit facility rate (%), Sep: 4.0 vs. 3.75 exp.
- US: Retail sales (m/m%), Aug: 0.6 vs. 0.1 exp.
- US: Retail sales ex auto, gas (m/m%), Aug: 0.2 vs. -0.1 exp.
- US: Initial jobless claims (k), wk to Sep 9: 220 vs. 225 exp.
- US: PPI ex food, energy (m/m%), Aug: 0.2 vs. 0.2 exp.
- US: PPI ex food, energy (y/y%), Aug: 2.2 vs. 2.2 exp.

Good Morning

A dovish hike by the ECB pushed down European rates and drove the EUR down to a six-month low, dragging down GBP in its wake. Commodity currencies have held their ground against a generally well-supported USD, the NZD remaining in a tight range just over 0.59. Oil prices are up to a fresh high and, alongside some resilient US economic data, have imparted some modest upside to US Treasury yields.

The ECB lifted its deposit rate by 25bps to 4%, against expectations that were finely balanced on whether the ECB might hike or pause. The updated economic projections showed growth forecasts cut for all three years of the projection period, to just 1% for next year after 0.7% this year. Inflation projections were raised for 2023 and 2024 and nudged down for 2025, but still just over 2% at that point.

The statement suggested that the tightening cycle was now over with “...the Governing Council considers that the key ECB interest rates have reached levels that, maintained for a sufficiently long duration, will make a substantial contribution to the timely return of inflation to the target.” President Lagarde said that “the focus is probably going to move a bit more to the duration, but it is not to say – because we can’t say – that now that we are at peak”.

Despite the statement noting policy decisions would still be data dependent, the market latched onto the sense that rates had probably peaked and this dragged European rates lower, against a backdrop of higher US rates, and thus driving EUR down. In addition to the lower rates differential the sluggish growth outlook didn’t help the

euro, particularly against a backdrop of signs that the US economy was still performing relatively much better.

US retail sales beat market expectations, although not really after considering the downward revisions to prior data. Headline sales of 0.6% m/m in August were boosted by higher gasoline prices, with the ex-auto and gas measure up a more sedate 0.2%. Still, the data conveyed a picture of a resilient consumer. Initial jobless claims rose by just 3k to 220k, consistent with some lingering labour market resilience. Core PPI inflation data were in line with expectations, with the core increasing by 0.2% m/m. The headline rate of 0.7% m/m, like the CPI data showed yesterday, was boosted by higher gasoline prices.

On that note, oil prices are up about 2% with WTI up through USD90 per barrel and Brent crude approaching USD94. There has been no additional news to that we reported earlier this week, of record demand amidst tight supply conditions, as Saudi Arabia enforces ongoing production restrictions.

After the dovish ECB hike, European 10-year rates are down in the order of 5-7bps against a 3-4bps lift in US Treasury yields, with the 2-year rate at 5% and the 10-year rate at 4.28%. EUR broke down through the May low and at 1.0635 is now at a fresh six-month low. This dynamic has driven down other European currencies, with GBP breaking below its 200-day moving average to just below 1.24.

Commodity currencies have held their ground against the USD, with CAD supported by higher oil prices and NZD and AUD supported by further policy easing by the PBoC. The PBoC cut the reserve requirement ratio for most banks another 25bps, the sixth reduction this policy cycle and the first cut since March. The cut will add further liquidity to the banking system but, as with previous cuts, this could well continue to prove ineffective in the face of a lack of credit demand. Large interest rate cuts would be more effective to stimulate demand but, with the PBoC already battling to control downward pressure on the yuan, this is unlikely.

The NZD continues to trade in a tight range just over 0.59, while AUD sits at 0.6435. NZD/AUD has drifted below 0.92. Yesterday, Australian employment strongly bounced back by 65k in August after small fall in July, with a strong labour force increase keeping the unemployment rate steady at 3.7%. The data confirmed that the soft July

employment figure did not mark an abrupt shift in the still-tight labour market, keeping the possibility of further RBA tightening alive, although the market still sees very little chance of this occurring at the next meeting.

The weak EUR and GBP sees those NZD crosses higher, at 0.5555 and 0.4765 respectively. JPY shows little net movement for the day and NZD/JPY has been hovering just over the 87 mark.

In terms of equity markets, the “soft landing” narrative is getting a lot of airplay and helping support US equities, with the S&P500 currently up 0.8%, with all sectors contributing. Despite the soggy growth outlook for the euro area, the end of the tightening cycle narrative supported European equities, seeing the Euro Stoxx 600 index close up 1.5%.

Global forces were largely in play in pushing down NZ rates yesterday, with NZGBs down 2-5bps across the curve and swaps down 1-5bps. Regarding the government’s bond tender, there was still healthy demand despite the fiscal update earlier this week showing a marked deterioration in the accounts and upscaled supply to hit the market over coming years. All four lines tendered cleared through pre-tender mids, helped by some cheapening up relative to offshore markets ahead of the tender.

In the day ahead the key focus will be on China monthly activity indicators for August, with low expectations of any sustained improvement until the government adopts a much easier fiscal stance. Ahead of that, there is a strong consensus that the PBoC will leave the medium-term lending facility rate unchanged after last month’s 15bps cut. Only second-tier US data are released, with some interest in consumer sentiment and inflation expectations. For NZ, the manufacturing PMI is released.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Manufacturing PMI	Aug	46.3	10:30	
CH	1-Yr med.-term lending rate (%)	Sep	2.5	2.5	13:20
CH	Industrial production (y/y%)	Aug	3.9	3.7	14:00
CH	Retail sales (y/y%)	Aug	3.0	2.5	14:00
CH	Fixed assets invest. (YTD, y/y%)	Aug	3.3	3.4	14:00
US	Empire manufacturing	Sep	-10	-19	00:30
US	Industrial production (m/m%)	Aug	0.1	1.0	01:15
US	U. of Mich. cons. sentiment	Sep	69.0	69.5	02:00
US	U. of Mich. 5-10 yr inflation exp.	Sep	3.0	3.0	02:00

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	0.5910	-0.1	0.5902	0.5936	CHF	0.8963	+0.3	S&P 500	4,505	+0.8	14.2	Oil (Brent)	93.76	+2.1
AUD	0.6435	+0.2	0.6419	0.6460	SEK	11.201	+0.6	Dow	34,942	+1.1	12.2	Oil (WTI)	90.22	+1.9
EUR	1.0636	-0.9	1.0632	1.0747	NOK	10.751	+0.3	Nasdaq	13,933	+0.9	18.9	Gold	1912.5	-0.1
GBP	1.2402	-0.7	1.2397	1.2494	HKD	7.829	+0.0	Stoxx 50	4,280	+1.3	20.0	HRC steel	706.0	-0.1
JPY	147.44	-0.0	147.02	147.56	CNY	7.279	+0.1	FTSE	7,673	+2.0	5.4	CRB	287.6	+0.1
CAD	1.3510	-0.3			SGD	1.364	+0.2	DAX	15,805	+1.0	21.3	Wheat Chic.	592.3	-0.8
NZD/AUD	0.9184	-0.3			IDR	15,355	-0.1	CAC 40	7,309	+1.2	17.5	Sugar	26.98	+1.3
NZD/EUR	0.5557	+0.7			THB	35.80	+0.2	Nikkei	33,168	+1.4	19.0	Cotton	86.47	+0.5
NZD/GBP	0.4765	+0.5			KRW	1,326	-0.3	Shanghai	3,127	+0.1	-2.3	Coffee	154.0	+1.3
NZD/JPY	87.14	-0.1			TWD	31.90	-0.2	ASX 200	7,187	+0.5	5.0	WM powder	2855	-1.7
NZD/CAD	0.7984	-0.4			PHP	56.76	+0.1	NZX 50	11,314	-0.4	-3.0	Australian Futures		
NZ TWI	69.76	-0.0										3 year bond	96.174	0.02
												10 year bond	95.90	0.03
Interest Rates														
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	4.90	3.99	USD	4.29	0.04	15-Apr-25	5.48	-0.02		1 year	5.75	-0.01
AUD	4.10	4.12	4.15	4.44	AUD	4.11	-0.03	15-Apr-27	5.07	-0.03		2 year	5.49	-0.01
NZD	5.50	5.66	5.49	4.78	NZD	4.93	-0.05	15-May-28	4.96	-0.04		5 year	4.92	-0.03
EUR	3.75	3.85	3.74	3.14	GER	2.59	-0.06	15-May-31	4.92	-0.05		7 year	4.81	-0.04
GBP	5.25	5.58	5.26	4.20	GBP	4.28	-0.07	14-Apr-33	4.93	-0.05		10 year	4.78	-0.04
JPY	-0.01	-0.03	0.21	0.89	JPY	0.72	0.00	15-May-41	5.15	-0.04		15 year	4.84	-0.05
CAD	5.00	5.48	5.22	4.18	CAD	3.69	0.00	15-May-51	5.15	-0.04				

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

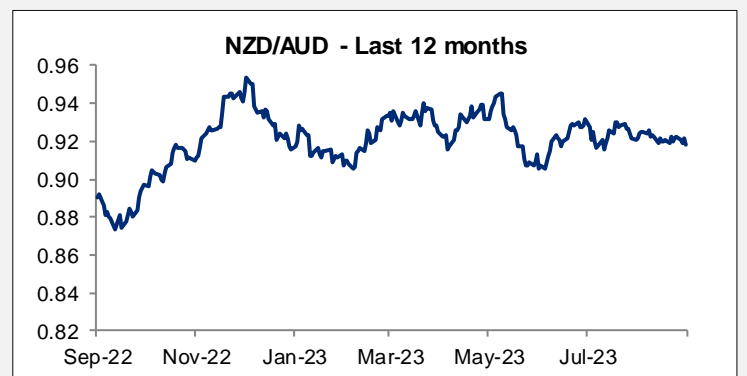
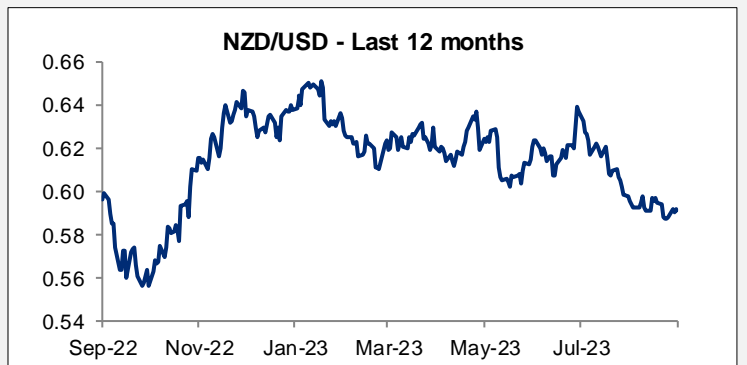
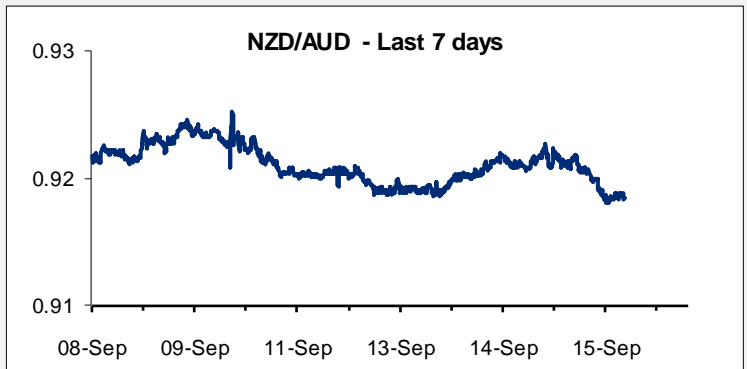
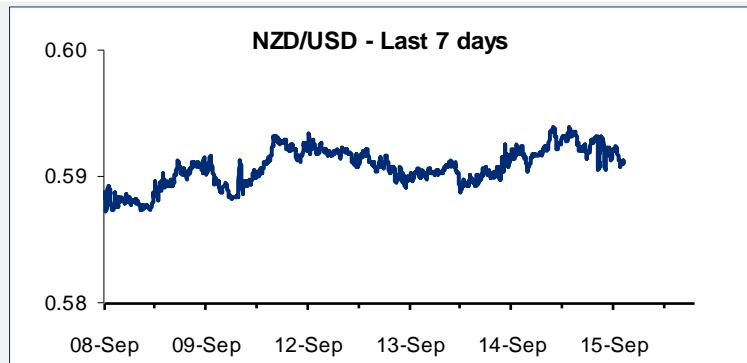
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:54

Source: Bloomberg

NZD exchange rates

15/09/2023	6:55 am	Prev. NY close
USD	0.5910	0.5918
GBP	0.4765	0.4738
AUD	0.9184	0.9215
EUR	0.5557	0.5515
JPY	87.14	87.27
CAD	0.7984	0.8018
CHF	0.5297	0.5289
DKK	4.1438	4.1148
FJD	1.3481	1.3533
HKD	4.6266	4.6314
INR	49.08	49.11
NOK	6.3537	6.3411
PKR	176.08	176.83
PHP	33.55	33.57
PGK	2.1413	2.1442
SEK	6.6198	6.5887
SGD	0.8059	0.8055
CNY	4.3018	4.3034
THB	21.15	21.16
TOP	1.3802	1.3859
VUV	72.16	72.10
WST	1.6343	1.6183
XPF	65.98	65.18
ZAR	11.2535	11.1361



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.13	0.31
3 Months	0.25	0.87
6 Months	0.59	1.79
9 Months	-1.17	1.08
1 Year	-4.77	-1.76

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-10.13	-9.17
3 Months	-29.25	-27.86
6 Months	-58.75	-55.73
9 Months	-86.36	-81.02
1 Year	-112.06	-103.86

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