

Research Markets Today

21 September 2023

Events Round-Up

NZ: Current a/c balance (% of GDP), Q2: -7.5 vs. -8.0 exp.

UK: CPI (y/y%), Aug: 6.7 vs. 7.0 exp.

UK: CPI Core (y/y%), Aug: 6.2 vs. 6.8 exp.

US: Fed Funds rate (Upper bd %), Sep: 5.5 vs. 5.5 exp.

Good Morning

In a hawkish hold, the US Federal Reserve left the target range for the Fed Funds rate unchanged at 5.25-5.50%, as was widely anticipated and signalled rates are likely to stay higher for longer. The committee said it remained 'highly attentive to inflation risks', noting that economic activity had been expanding at a 'solid pace'. The Fed maintained a tightening bias and repeated language saying officials will 'determine the extent of additional policy firming that may be appropriate.'

Alongside upward revisions to growth forecasts, the updated quarterly projections signalled one further 25bp hike this year and notably reduced the amount of easing for 2024. The median estimate for the fed funds rate for the end of 2024 is 5.1%, up from 4.6% previously. Expectations for the longer-term rate was unchanged at 2.5%.

The initial market reaction was for higher US yields and a stronger US Dollar. 2-year treasury yields reversed earlier falls and traded up to 5.15%, the highest level since 2006 which saw the Dollar rebound from an earlier fall. Market expectations for further tightening firmed with the OIS market pricing ~9bps hike for November as well as reducing the amount of easing priced for 2024.

Heading into the announcement, US treasury yields were lower across the curve. After hitting a 16-year high the previous day, 10-year treasury yields were 4bps lower at 4.32%, while 2-year year yields were down 5bp at 5.06%. Yields spiked following the FOMC led by the front end. Comments by Chair Powell in the press conference that the Fed will proceed 'carefully' saw yields retrace from the intra-day highs.

In currency markets, the US Dollar was weaker in the leadup to the FOMC with the dollar index close to 0.4% lower. The pound underperformed within G10 as the

market reduced the chance of further tightening by the Bank of England (BOE) after an inflation slowdown. The dollar then rebounded following the front-end treasury yields.

The NZD made solid gains and reached session highs above 0.5980 ahead of the FOMC before sharply reversing course aligned with stronger US dollar. NZD outperformed on the cross rates relative to the yen and pound while NZD/AUD was marginally lower at 0.9180.

Japan's top currency official Kanda continued with the recent narrative that 'excessive Yen moves aren't desirable'. He also said that he is keeping in close contact with foreign officials who agree with Japan's stance. US Treasury Secretary Yellen said any intervention would be understandable if it was aimed at smoothing out volatility. There was limited reaction in the Yen to the comments, which is below the intervention level from October last year on a trade-weighted basis.

Inflation in the UK was lower than expected in August. Headline inflation fell to 6.7% from 6.8% in July and was below consensus forecasts for a rise to 7%. Core inflation increased 6.2% on an annual basis, below 6.8% expectations. The Pound fell to the lowest level since May and gilts rallied strongly as investors recalibrated views ahead of the BOE rate decision this evening.

The market-implied probability of a 25bps rate hike by the BOE fell to about 50% from 80% ahead of the data amid rising speculation rising that policymakers may opt to hold or even end the tightening cycle. The market is now pricing a peak of about 22bp of tightening, down from 35bp previously. The gilt curve bull steepened with the yield on 2-year bonds down 16bp to 4.82% while the 10-year yield dropped 13bp to 4.21%.

NZ fixed interest markets moved higher in the yield during the local session yesterday reflecting offshore markets and some position unwinding. 10-year bond yields increased 5bps to 5.08%, still below the multi-year highs at 5.15% reached in August. Australian 3-year bond futures are about 3bp higher in yield since the local close yesterday while 10-year futures are little changed.

New Zealand Debt Management is tendering NZ\$500 million of nominal NZGBs today split across 15 May 2028 (\$200m), 15 May 2032 (\$225m) and 15 April 2051 (\$75m).

GDP data is released this morning and is expected to confirm that the NZ economy has emerged from a technical recession in the second quarter. The pickup in growth reflects in part a recovery from the adverse weather impacted first quarter. Despite the rebound, we continue to expect weak activity in coming quarters as indicated by the composite PMI falling further into contractionary territory earlier this week.

Coming Up

		Period	Cons.	Prev.	NZT
NZ	GDP SA QoQ	2Q	0.4	-0.1	10:45
UK	Bank of England Bank Rate	Sep	5.5	5.25	23:00
US	Initial Jobless Claims	Sep 16	225	220	00:30
US	Philadelphia Fed Business Ou	Sep	-1	12	00:30
US	Existing Home Sales MoM	Aug	0.74	-2.2	02:00
EC	Consumer Confidence	Sep P	-16.5	-16	02:00

Source: Bloomberg, BNZ

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Indicative overnight ranges (*)							Other FX			Equities				Commodities**		
	Last	% Day	Low	High		Last	% Day	Major Indices			Price					
								Last	% Day	% Year	Last	Net Day				
NZD	0.5944	+0.1	0.5934	0.5985	CHF	0.8974	-0.0	S&P 500	4,434	-0.1	15.0	Oil (Brent)	93.49	-0.9		
AUD	0.6470	+0.2	0.6454	0.6511	SEK	11.096	-0.6	Dow	34,617	+0.3	12.7	Oil (WTI)	90.28	-1.0		
EUR	1.0684	+0.0	1.0674	1.0737	NOK	10.752	-0.2	Nasdaq	13,595	-0.6	19.0	Gold	1943.3	+0.4		
GBP	1.2361	-0.3	1.2335	1.2421	HKD	7.823	+0.0	Stoxx 50	4,276	+0.8	23.3	HRC steel	705.0	-0.1		
JPY	148.02	+0.1	147.48	148.17	CNY	7.286	-0.2	FTSE	7,732	+0.9	7.5	CRB	290.0	+0.2		
CAD	1.3442	-0.0			SGD	1.363	-0.1	DAX	15,782	+0.7	24.6	Wheat Chic.	614.8	+0.7		
NZD/AUD	0.9187	-0.1			IDR	15,382	+0.0	CAC 40	7,331	+0.7	22.6	Sugar	26.79	-2.2		
NZD/EUR	0.5563	+0.1			THB	36.07	+0.1	Nikkei	33,024	-0.7	20.9	Cotton	85.37	-0.8		
NZD/GBP	0.4809	+0.4			KRW	1,330	+0.1	Shanghai	3,109	-0.5	-0.3	Coffee	158.2	-1.5		
NZD/JPY	87.98	+0.2			TWD	32.03	+0.0	ASX 200	7,163	-0.5	6.9	WM powder	3020	+4.1		
NZD/CAD	0.7990	+0.1			PHP	56.80	+0.1	NZX 50	11,325	-0.2	-2.1	Australian Futures				
NZ TWI	70.15	+0.1										3 year bond	96.07	-0.06		
Interest Rates													10 year bond	95.78	0.00	
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	5.66	5.03	4.05	USD	4.34	-0.01	15-Apr-25	5.65	0.07	1 year	5.86	0.04			
AUD	4.10	4.14	4.27	4.51	AUD	4.22	0.05	15-Apr-27	5.24	0.07	2 year	5.64	0.04			
NZD	5.50	5.67	5.64	4.93	NZD	5.08	0.05	15-May-28	5.12	0.06	5 year	5.06	0.05			
EUR	4.00	3.93	3.82	3.23	GER	2.70	-0.04	15-May-31	5.08	0.06	7 year	4.96	0.06			
GBP	5.25	5.59	5.13	4.13	GBP	4.22	-0.13	14-Apr-33	5.08	0.05	10 year	4.93	0.07			
JPY	-0.06	-0.03	0.20	0.88	JPY	0.73	0.01	15-May-41	5.29	0.05	15 year	4.98	0.07			
CAD	5.00	5.49	5.44	4.35	CAD	3.86	-0.00	15-May-51	5.29	0.04						

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

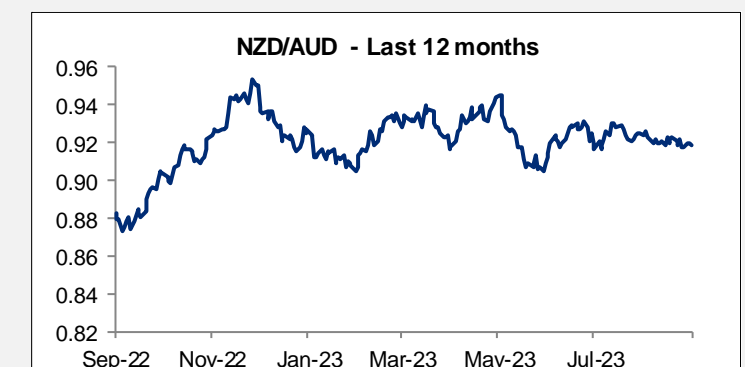
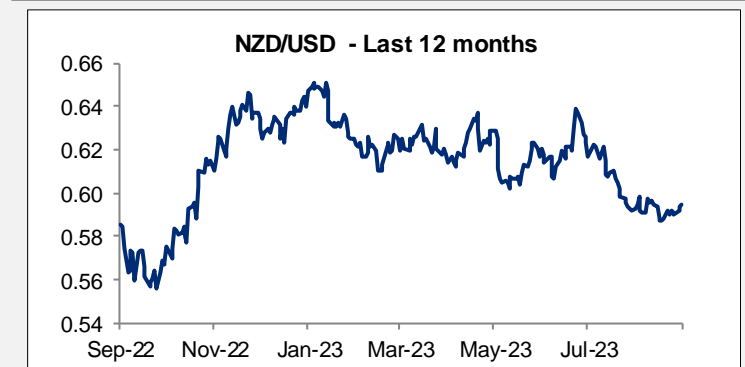
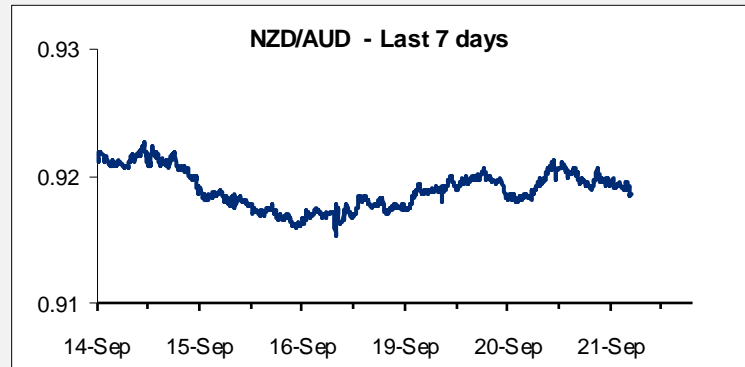
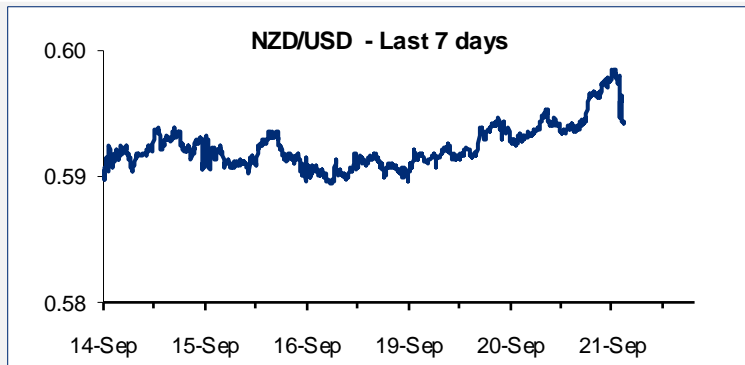
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 07:11

Source: Bloomberg

NZD exchange rates

21/09/2023	7:11 am	Prev. NY close
USD	0.5944	0.5936
GBP	0.4809	0.4790
AUD	0.9187	0.9197
EUR	0.5563	0.5559
JPY	87.98	87.77
CAD	0.7990	0.7983
CHF	0.5334	0.5329
DKK	4.1467	4.1430
FJD	1.3503	1.3549
HKD	4.6498	4.6423
INR	49.38	49.43
NOK	6.3908	6.3989
PKR	174.66	175.04
PHP	33.77	33.70
PGK	2.1615	2.1554
SEK	6.5955	6.6277
SGD	0.8103	0.8101
CNY	4.3310	4.3317
THB	21.43	21.34
TOP	1.3868	1.4003
VUV	72.52	72.54
WST	1.6230	1.6370
XPF	66.21	66.13
ZAR	11.1818	11.2420



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.53	0.34
3 Months	-0.13	0.42
6 Months	-0.04	1.01
9 Months	-2.64	0.14
1 Year	-5.74	-2.74

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-10.87	-9.25
3 Months	-28.59	-27.06
6 Months	-58.24	-54.88
9 Months	-87.00	-79.93
1 Year	-111.20	-101.82

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