

# Research Markets Today

22 September 2023

## Events Round-Up

- NZ: GDP (q/q%), Q2: 0.9 vs. 0.4 exp.
- UK: Bank of England Bank Rate (%), Sep: 5.5 vs. 5.5 exp.
- US: Initial jobless claims (k), Sep-16: 201 vs. 225 exp.
- US: Philly Fed business outlook, Sep: -13.5 vs. -1.0 exp.
- US: Existing home sales (m/m%), Aug: -0.7 vs. 0.7 exp.
- EC: Consumer confidence, Sep: -17.8 vs. -16.5 exp.

## Good Morning

Markets have been jittery following the Fed's hawkish hold yesterday, while in a close call the BoE opted to leave rates unchanged, for the first time in nearly two years. Steeper yield curves have been the order of the day, with long-dated global rates trading at fresh multi-year or multi-decade highs across many countries. Equity investors are showing some nerves, with notable falls across Europe and the US. After hitting a fresh six-month high, the USD DXY index is now flat for the day. After briefly going sub-0.59, the NZD has consolidated in familiar territory back over 0.59.

In the wake of the Fed's higher for longer message yesterday, global long-term rates have pushed higher – the market accepting the view that even if the tightening cycle has come to an end, or very close to it, the mood to ease just won't be there in the face of sticky inflationary pressure. Thus, yield curves have steepened, with short rates anchored and long-term rates higher, with fresh milestones being set across the US, Germany, Japan, NZ and others for 10-year government rates.

Following a surprising fall in initial jobless claims (see below), the US 10-year rate is up 7bps for the day (4bps since the NZ close) to 4.47%, after trading a high of 4.49%, a level not seen since 2007. The 2-year rate is down 3bps to 5.14%, after reaching almost as high as 5.20% overnight and still higher than the 5.06% rate prevailing before the Fed meeting.

US economic data were mixed. Initial jobless claims unexpectedly fell 20k last week to 201k to its lowest level since January, the recent downward trend defying expectations that a looser labour market would drive applications for unemployment benefits higher. Meanwhile, existing home sales unexpectedly fell 0.7% to

a seven-month month, having now fallen five of the past six months, consistent with a renewed downturn in the housing market as rising mortgage rates increasingly bite. Also on the soft side of the ledger, the Philadelphia Fed index fell by much more than expected to -13.5, following its brief excursion in positive territory in August.

The S&P500 is down over 1%, with all sectors down and economically-sensitive stocks performing the worst. Risk appetite is weaker with the VIX index up through 16. The Euro Stoxx 600 index closed down 1.3%.

As well as the market needing to fully digest the message from the Fed yesterday, other central banks have been in the spotlight. Expectations for the BoE's policy meeting were evenly balanced between a hike and a hold, and in the event a 5-4 vote split on the MPC resulted in leaving the policy rate at 5.25%, breaking a run of tightening at every meeting since the end of 2021. Instead of a rate hike, the Bank upscaled the rate of quantitative tightening from £80b to £100b per annum to accommodate a larger bond maturity profile next year. A tightening bias was maintained with the MPC repeating the message that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures".

There was no press conference but speaking in an interview after the meeting, BoE Governor, who cast his vote to hold rates steady, said that he won't predict what happens next on interest rates. Market pricing is consistent with about a 70% chance of another hike by early next year.

In other central bank meetings, the Swiss National Bank defied widely-held expectations for a 25bps hike and left its policy rate unchanged, while Sweden and Norway's central banks both hiked the expected 25bps. Brazil's central bank cut rates by the expected 50bps, its first easing this cycle, following recent rate cuts by Poland and Chile. Emerging markets led the rate hike cycle and are now leading the rate cut cycle, giving a possible taste of what to expect for developed markets next year.

Next up will be the BoJ later today, but the central bank is widely expected to do nothing, putting it further behind the curve against a backdrop of strong inflation and solid economic growth. Japan's 10-year rate hit a ten-year high of 0.75% yesterday while the yen real effective exchange

rate fell to a record low in data dating back to 1970 – this as USD/JPY almost rose to as high as 148.50, but since falling back down to 147.50, a somewhat unexplainable reversal in the context of higher global long-term rates overnight and now with yen the strongest of the majors on a 24-hour and overnight basis.

USD dollar strength post yesterday's Fed meeting extended after the initial jobless claims report, but after the DXY index reached a fresh six month high, it has reversed course. It has been a bit of a rollercoaster ride for the NZD, spiking up to 0.5950 in the wake of a positive GDP surprise (see below), dollar-strength seeing it fall below 0.59 overnight and returning to 0.5935 as we go to print.

GBP and CHF have been the weakest majors overnight following the policy decisions. NZD/GBP is trading around six-week highs at 0.4830. Apart from NZD/JPY, which is a bit lower, NZD crosses are modestly stronger post the GDP print.

NZ Q2 GDP rose by 0.9% q/q and 1.8% y/y in Q2, a stronger bounce-back than expected from two consecutive weak quarters. While at face value, it appears that the economy was on a stronger footing than many assumed in Q2, it doesn't change the picture of a sluggish underlying economy, particularly when viewed against population growth that now exceeds 2%. We project a flat Q3 and annual growth not exceeding 1% again until the end of next year.

The domestic rates market has been messy over recent days and the combination of positioning, global forces and the GDP surprise took rates higher across the curve. The OIS market now fully prices another 25bps hike by February but we don't buy into that view. The 2-year swap rate closed up 9bps to 5.73% within a sliver of the July high, while 5-year and 10-year swap rates closed at fresh

highs for the cycle, both up 9-10bps. NZGBs outperformed swaps, but the 10-year rate still rose 7bps to 5.15%, its highest close since 2011. Higher rates met solid demand at the bond tender, particularly for the 2051s on offer and that bond closing the day only 4bps higher.

In the day ahead NZ consumer confidence and trade data are released. BOJ meets and isn't expected to deviate from its current ultra-easy policy stance. Ahead of that, annual core Japanese CPI inflation (ex fresh food and energy) is expected to remain steady at 4.3%, well above target. PMI data across Europe and the US are expected to show insignificant changes from the prior month.

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## Coming Up

		Period	Cons.	Prev.	NZT
NZ	Westpac consumer confid.	Q3	83.1	09:00	
NZ	Trade balance (annual \$b)	Aug	-15.8	10:45	
UK	GfK consumer confidence	Sep	-26	-25	11:01
JN	CPI (y/y%)	Aug	3.0	3.3	11:30
JN	CPI ex fr. food, energy (y/y%)	Aug	4.3	4.3	11:30
JN	BoJ 10-yr yield target (%)	Sep	0	0	
UK	Retail sales ex auto fuel (m/m%)	Aug	0.7	-1.4	18:00
GE	Manufacturing PMI	Sep	39.5	39.1	19:30
GE	Services PMI	Sep	47.1	47.3	19:30
EC	Manufacturing PMI	Sep	44.0	43.5	20:00
EC	Services PMI	Sep	47.6	47.9	20:00
UK	Manufacturing PMI	Sep	43.2	43.0	20:30
UK	Services PMI	Sep	49.4	49.5	20:30
CA	Retail sales ex auto (m/m%)	Jul	0.5	-0.8	00:30
US	Manufacturing PMI	Sep	48.2	47.9	01:45
US	Services PMI	Sep	50.7	50.5	01:45

Source: Bloomberg, BNZ

Indicative overnight ranges (*)								Other FX			Equities				Commodities**		
Indicative overnight ranges (*)				Other FX				Major Indices				Price					
	Last	% Day	Low	High		Last	% Day		Last	% Day	% Year		Last	Net Day			
NZD	0.5934	+0.1	0.5896	0.5942	CHF	0.9040	+0.6		S&P 500	4,351	-1.2	14.8	Oil (Brent)	93.27	-0.3		
AUD	0.6420	-0.4	0.6386	0.6432	SEK	11.160	+0.2		Dow	34,218	-0.6	13.4	Oil (WTI)	89.61	-0.1		
EUR	1.0663	+0.0	1.0625	1.0674	NOK	10.767	-0.2		Nasdaq	13,285	-1.4	18.4	Gold	1922.1	-1.4		
GBP	1.2292	-0.4	1.2239	1.2330	HKD	7.821	-0.0		Stoxx 50	4,213	-1.5	20.6	HRC steel	704.0	+0.0		
JPY	147.54	-0.5	147.32	148.38	CNY	7.307	+0.3		FTSE	7,679	-0.7	6.1	CRB	288.5	-0.5		
CAD	1.3470	+0.1			SGD	1.367	+0.1		DAX	15,572	-1.3	22.0	Wheat Chic.	602.3	-2.0		
NZD/AUD	0.9243	+0.5			IDR	15,375	-0.0		CAC 40	7,214	-1.6	19.6	Sugar	26.93	+0.5		
NZD/EUR	0.5565	+0.1			THB	36.15	+0.0		Nikkei	32,571	-1.4	20.0	Cotton	84.87	-0.4		
NZD/GBP	0.4828	+0.5			KRW	1,340	+0.7		Shanghai	3,085	-0.8	-0.8	Coffee	154.9	-2.0		
NZD/JPY	87.55	-0.4			TWD	32.13	+0.3		ASX 200	7,065	-1.4	5.4	WM powder	3030	+0.3		
NZD/CAD	0.7993	+0.1			PHP	56.86	+0.1		NZX 50	11,319	-0.1	-1.7	<b>Australian Futures</b>				
NZ TWI	70.20	+0.3											3 year bond	95.96	-0.11		
<b>Interest Rates</b>																	
<b>Rates</b>		<b>Swap Yields</b>			<b>Benchmark 10 Yr Bonds</b>		<b>NZ Government Bonds</b>			<b>NZ Swap Yields</b>							
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day		Last				Last				
USD	5.50	5.66	5.04	4.19	USD	4.48	0.07	15-Apr-25	5.72	0.07			1 year	5.91	0.05		
AUD	4.10	4.14	4.36	4.64	AUD	4.30	0.09	15-Apr-27	5.31	0.07			2 year	5.73	0.09		
NZD	5.50	5.69	5.73	5.02	NZD	5.15	0.07	15-May-28	5.19	0.07			5 year	5.16	0.10		
EUR	4.00	3.93	3.82	3.28	GER	2.74	0.04	15-May-31	5.15	0.07			7 year	5.05	0.09		
GBP	5.25	5.50	5.14	4.20	GBP	4.31	0.09	14-Apr-33	5.15	0.07			10 year	5.02	0.09		
JPY	-0.05	-0.03	0.22	0.91	JPY	0.74	0.02	15-May-41	5.35	0.06			15 year	5.06	0.08		
CAD	5.00	5.49	5.46	4.44	CAD	3.96	0.05	15-May-51	5.33	0.04							

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

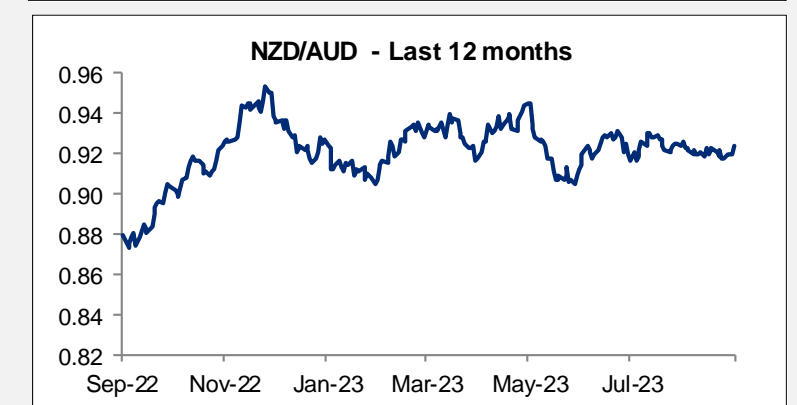
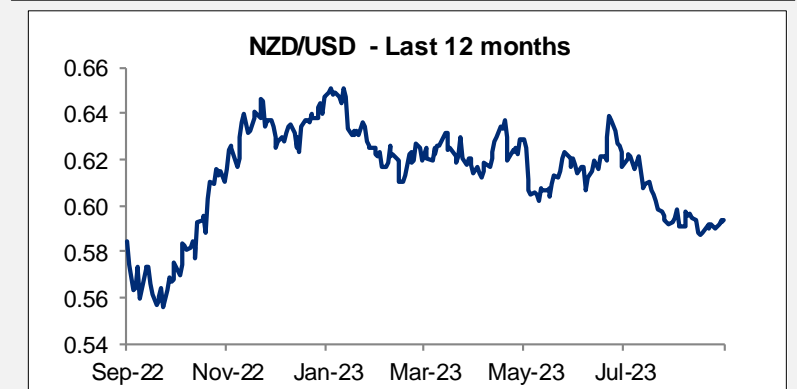
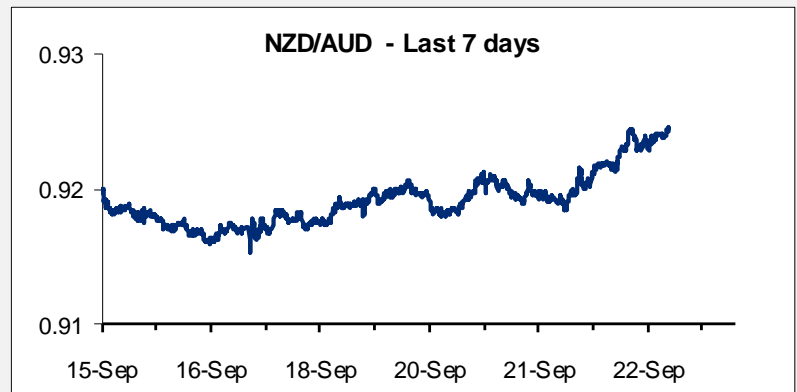
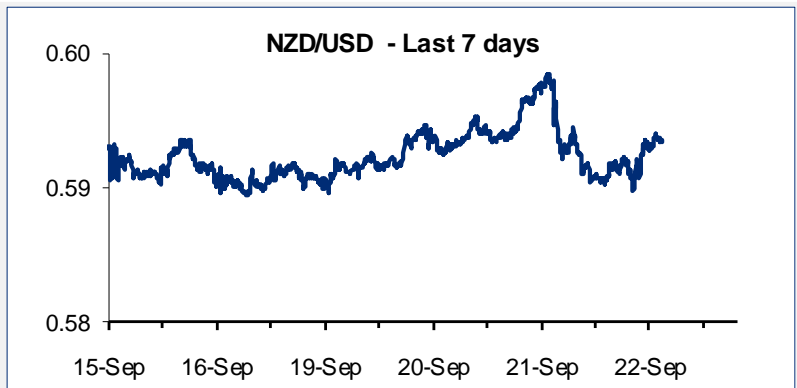
\*\* All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 07:04

Source: Bloomberg

**NZD exchange rates**

22/09/2023 7:04 am	Prev. NY close	
USD	0.5934	0.5929
GBP	0.4828	0.4803
AUD	0.9243	0.9195
EUR	0.5565	0.5561
JPY	87.55	87.95
CAD	0.7993	0.7982
CHF	0.5364	0.5328
DKK	4.1490	4.1451
FJD	1.3468	1.3546
HKD	4.6409	4.6385
INR	49.31	49.26
NOK	6.3891	6.3966
PKR	173.75	174.22
PHP	33.74	33.69
PGK	2.1586	2.1560
SEK	6.6221	6.6066
SGD	0.8110	0.8095
CNY	4.3356	4.3200
THB	21.45	21.38
TOP	1.3881	1.3993
VUV	72.39	72.64
WST	1.6210	1.6243
XPF	66.37	66.11
ZAR	11.2278	11.1708



**NZD/USD Forward Points**

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.35	0.05
3 Months	-0.49	0.23
6 Months	-1.24	-0.15
9 Months	-4.50	-1.84
1 Year	-9.54	-6.54

**NZD/AUD Forward points**

	BNZ buys NZD	BNZ Sells NZD
1 Month	-10.16	-9.22
3 Months	-29.89	-28.11
6 Months	-59.36	-56.23
9 Months	-86.55	-80.14
1 Year	-111.68	-101.75

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