

# Research Markets Today

26 September 2023

## Events Round-Up

GE: IFO expectations, Sep: 82.9 vs. 83.0 exp.

## Good Morning

Newsflow has been light but that hasn't stopped a further sell-off of global bond markets, with the US 10-year Treasury trading at a fresh 16-year high and Germany's 10-year rate at a 12-year high. The DXY USD index rose to a fresh high for the year. The NZD has been surprisingly resilient, holding steady around 0.5960, amidst further pessimism around China, seeing NZD/AUD push higher.

On paper it looks to be a quiet week ahead, but bond markets are still smarting from last week's higher-for-longer message from the Fed which sees Treasuries unwind Friday's rally and re-steepen. The 2s10s curve is currently 8bps steeper and at minus 60bps is at its steepest level in four months and compares to the minus 108bps level reached in early July. The 2-year rate is up 2bps to 5.13% while the 10-year rate is up 10bps to 4.53%, a fresh 16-year high. Global curves show the same steeper pattern and Germany's 10-year rate is up 6bps to a fresh 12-year high of 2.80%.

Real rates have been behind the increase, with the real 10-year Treasury up 10bps to 2.16%, its highest level since 2009, while the break-even inflation rate has been steady.

Fed speakers will be out in force this week after last week's meeting. We already heard from some at the end of last week, as we reported yesterday. Overnight, Chicago Fed President Goolsbee said that the risk of inflation staying higher is still the bigger risk and that the debate will soon shift to how long to hold rates high. Reduced conviction on the potential for rate cuts next year has been a key force behind steeper yield curves recently.

Despite the rebound in rates, US equities have begun the week on a slightly stronger footing although the session has been choppy. The S&P500 is currently up 0.2%, following three consecutive weekly declines.

The USD has continued its upward trend evident since mid-July and the DXY index broke 106 for the first time this year, up 0.4% for the day, with EUR trading below 1.06, and GBP trading below 1.22. The yen has also been modestly weaker, the dovish BoJ last week and higher

global rates not helping, but USD/JPY met some resistance just below 149.

China's troubled property developer Evergrande was back in the news after it scrapped a debt restructuring plan because its property sales were worse than expected and an investigation into one of its subsidiaries barred it from issuing new bonds. Its share price plunged over 20% and set off a fall in other property developers. China's CSI index ended the day down 0.7% while Hong Kong's Hang Seng index fell 1.8%.

As a result, there was downward pressure on the yuan and this spilled over into a weaker AUD. The NZD remained surprisingly resilient, following last week's leading performance, flat for the day at near 0.5960 against a modest fall in the AUD to 0.6420, seeing NZD/AUD push higher to 0.9290. A factor in this dynamic was tumbling iron ore prices, which fell as much as 4.7%, with talk of buyers holding back amid persistent weakness in China's property market. Metal prices were broadly weaker on the LME, with copper, aluminium, zinc and others all lower.

In economic news, German business confidence, as measured by the IFO survey, was little changed in August, in line with the consensus, with the expectations component nudging up to 82.9, consistent with the economy remaining in a mild recession.

In the domestic rates markets, rates were lower across the board, largely reflecting the offshore moves on Friday night. NZGBs fell 4-5bps and swaps fell 3-4bps. The Australian 3-year bond future is up 4bps in yields terms overnight while the 10-year bond future is up 9bps in yield terms, setting the scene for a reversal of rates on the NZ open and some steepening pressure. As the week progresses, focus will increasingly turn to next week's RBNZ MPR, where most expect a business-as-usual update from the Bank with no change in rates (again), even if the OIS market prices a small chance (5bps) of another hike.

In the day ahead we'll hear from the Fed's Kashkari during NZ trading hours, who has been on the more hawkish side of the committee. Tonight sees the release of US new home sales and the Conference Board measure of consumer confidence.

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## Coming Up

		Period	Cons.	Prev.	NZT
US	Fed's Kashkari speaks				11:00
US	New home sales (k)	Aug	699	714	03:00
US	Conf. Board consumer confid.	Sep	105.5	106.1	03:00

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		Last	Net Day			
NZD	0.5967	+0.1	0.5946	0.5974	CHF	0.9114	+0.6	S&P 500	4,331	+0.2	17.3	Oil (Brent)	93.41	+0.1			
AUD	0.6422	-0.3	0.6404	0.6436	SEK	11.052	-0.6	Dow	33,961	-0.0	14.8	Oil (WTI)	89.91	-0.2			
EUR	1.0596	-0.6	1.0576	1.0653	NOK	10.792	+0.3	Nasdaq	13,250	+0.3	21.9	Gold	1917.5	-0.6			
GBP	1.2218	-0.2	1.2194	1.2250	HKD	7.816	-0.1	Stoxx 50	4,167	-0.9	24.5	HRC steel	705.0	+0.0			
JPY	148.79	+0.3	148.37	148.96	CNY	7.313	+0.2	FTSE	7,624	-0.8	8.6	CRB	286.0	+0.0			
CAD	1.3468	-0.1			SGD	1.366	+0.1	DAX	15,405	-1.0	25.4	Wheat Chic.	613.0	+1.2			
NZD/AUD	0.9291	+0.4			IDR	15,403	+0.2	CAC 40	7,124	-0.8	23.2	Sugar	26.31	-2.4			
NZD/EUR	0.5631	+0.6			THB	36.15	+0.5	Nikkei	32,679	+0.9	23.6	Cotton	84.04	-1.0			
NZD/GBP	0.4884	+0.3			KRW	1,336	-0.0	Shanghai	3,116	-0.5	2.1	Coffee	148.5	-1.9			
NZD/JPY	88.78	+0.4			TWD	32.16	+0.1	ASX 200	7,077	+0.1	9.4	WM powder	3020	-1.6			
NZD/CAD	0.8036	+0.0			PHP	56.78	-0.0	NZX 50	11,377	+0.0	-0.5	<b>Australian Futures</b>					
NZ TWI	70.70	+0.3										3 year bond	96	0.03			
<b>Interest Rates</b>																	
	Rates				Swap Yields				Benchmark 10 Yr Bonds		NZ Government Bonds		NZ Swap Yields				
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day		Last		Last		Last				
USD	5.50	5.66	5.01	4.23	USD	4.52	0.09	15-Apr-25	5.66	-0.04	1 year	5.90	-0.01				
AUD	4.10	4.14	4.30	4.68	AUD	4.31	-0.03	15-Apr-27	5.27	-0.05	2 year	5.67	-0.03				
NZD	5.50	5.72	5.67	5.00	NZD	5.13	-0.05	15-May-28	5.16	-0.04	5 year	5.12	-0.04				
EUR	4.00	3.96	3.81	3.34	GER	2.80	0.06	15-May-31	5.13	-0.05	7 year	5.02	-0.04				
GBP	5.25	5.39	5.07	4.23	GBP	4.32	0.07	14-Apr-33	5.13	-0.05	10 year	5.00	-0.04				
JPY	-0.04	-0.03	0.21	0.90	JPY	0.74	-0.01	15-May-41	5.34	-0.04	15 year	5.04	-0.04				
CAD	5.00	5.49	5.42	4.49	CAD	4.02	0.10	15-May-51	5.33	-0.05							

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

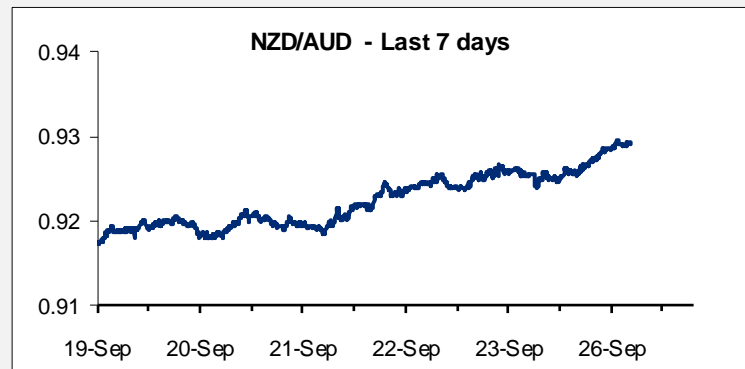
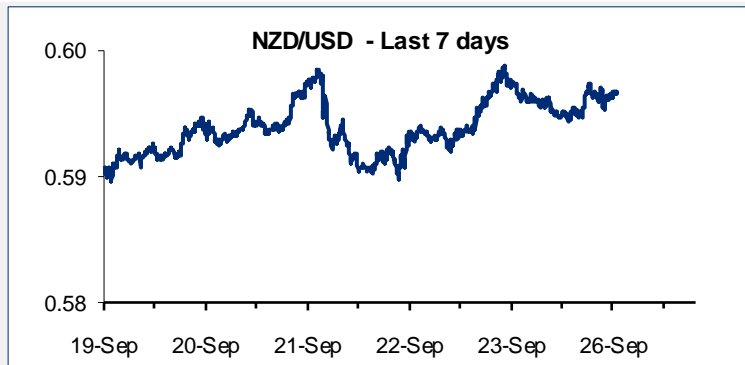
\*\* All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:56

Source: Bloomberg

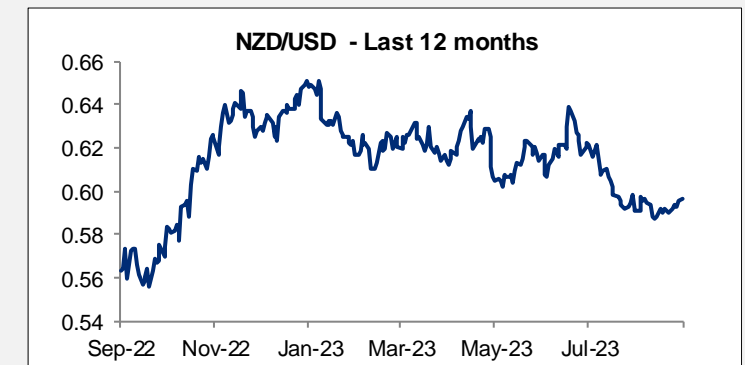
**NZD exchange rates**

25/09/2023	6:56 am	Prev. NY close
USD	0.5967	0.5960
GBP	0.4884	0.4869
AUD	0.9291	0.9253
EUR	0.5631	0.5595
JPY	88.78	88.43
CAD	0.8036	0.8036
CHF	0.5440	0.5403
DKK	4.1994	4.1715
FJD	1.3586	1.3582
HKD	4.6637	4.6611
INR	49.61	49.43
NOK	6.4414	6.4120
PKR	173.57	174.02
PHP	33.88	33.85
PGK	2.1698	2.1673
SEK	6.5957	6.6266
SGD	0.8153	0.8137
CNY	4.3635	4.3502
THB	21.56	21.46
TOP	1.3890	1.3880
VUV	72.86	72.88
WST	1.6470	1.6474
XPF	66.74	66.48
ZAR	11.1889	11.1782



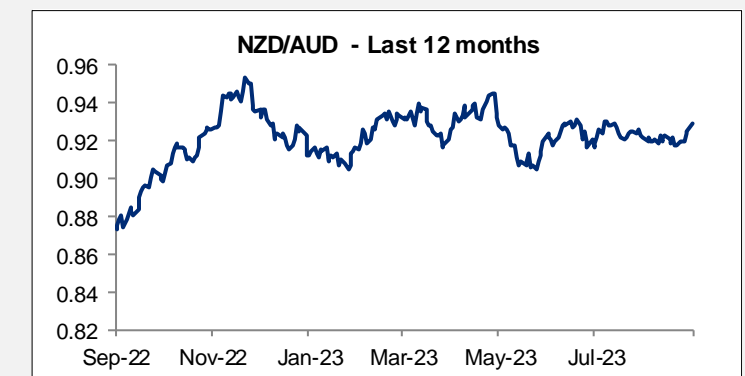
**NZD/USD Forward Points**

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.13	0.22
3 Months	-0.23	0.27
6 Months	-0.88	0.14
9 Months	-4.55	-2.03
1 Year	-9.52	-6.08



**NZD/AUD Forward points**

	BNZ buys NZD	BNZ Sells NZD
1 Month	-10.26	-9.44
3 Months	-29.83	-28.34
6 Months	-60.84	-57.83
9 Months	-89.70	-83.54
1 Year	-115.63	-105.97



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