

Research Markets Today

28 September 2023

Events Round-Up

AU: CPI (y/y%), Aug: 5.2 vs. 5.2 exp.

GE: GfK consumer confidence, Oct: -26.5 vs. -26.0 exp.

US: Durable goods orders (m/m%), Aug: 0.2 vs. -0.5 exp.

US: Durables ex transport. (m/m%), Aug: 0.4 vs. 0.2 exp.

Good Morning

It's a case of more of the same overnight, with weaker equity markets in the face of fresh cycle highs for bond yields with steeper curves, higher oil prices and a stronger USD.

Risk sentiment remains downbeat overnight with the VIX index up through 19 and the S&P500 currently down 0.7%, following the chunky 1½% decline yesterday and extending its decline for September towards 6%. The Euro Stoxx 600 index fell 0.2%.

Not helping market sentiment, a US government shutdown from 1 October still looks likely, even if, as Politico reports, the House and Senate took modest steps on spending. The Senate released a stopgap funding bill that was meant to be voted on Friday, but some Republican senators already want some change to ease its path in the House, with the bill deemed a "nonstarter" in its current form.

Concern about the impact of higher interest rates – how high they might go and how long they might stay up there – also continues to weigh on market sentiment. The US 10-year Treasury yield traded at a fresh 16-year high of 4.63% and is currently up 8bps on the day at 4.61%. With the 2-year rate well anchored, the 2s10s curve continues to steepen. When assessing the timing of economic recession, a steeper curve after the big inversion is one of the best indicators, and the curve has steepened by some 56bps to a four-month high of minus 52bps since early-July.

Not helping the cause to bring inflation down, oil prices continue to rally. Oil is up about 3% with Brent crude piercing USD97 at its overnight high and WTI up through USD94. Inventories at Cushing Oklahoma – the biggest crude hub in the US – dropped just below 22 million barrels, close to operational minimums, highlighting just how low inventories have become. This is adding to some

angst in the oil market on top of record demand and world supply constrained by curbs on Saudi Arabia production.

In economic data, US durable goods orders were stronger than expected in August, although much of this can be accounted for a notable downward revision to July data. Capital goods shipments (non-defence, excluding aircraft), rose 0.7% m/m after a couple of soft months. Stepping back from the monthly noise, the trend is one of slowing growth in business investment.

Meanwhile in the euro area, there continues to be strong evidence of higher interest rates biting, with borrowing by companies up only 0.6% y/y in August and lending to households down to 1% y/y, both around the slowest pace in eight years.

Weaker risk sentiment and further signs that the US economy is showing more resilience than the euro area continues to support the USD, with the DXY index up 0.6% to a fresh high for the year. EUR has traded just below 1.05, while GBP has fallen to 1.2120.

The NZD is trading near its lows for the day, about 0.59 as we go to print and down 0.7% from this time yesterday. The AUD has fallen 1% to 0.6340. NZD cross movements have been modest. While NZD/AUD has pushed a little higher, over the past 24 hours the NZD is mostly weaker against other majors. Higher oil prices have supported NOK and CAD and NZD/CAD is trading back below 0.80.

USD/JPY continues to push higher, getting ever closer to the 150 mark. Finance Minister Suzuki's comments that he is watching FX markets with a "sense of urgency" has become a daily ritual, but he has so far stopped short of intervention. Not that urgent, evidently.

Yesterday, Australia's monthly CPI indicator rose three-tenths to 5.2% in August, with the same increase for the ex-volatiles measure to 5.8%. The data kept alive the chance of a further RBA hike later in the year. In NZ, Westpac's employment confidence index fell sharply by 7.4pts to 98.3, starting to resemble the pace of decline seen during the shock periods of the GFC and COVID, with current conditions falling the most. The data points to a possible sharp lift in the unemployment rate, consistent with a view that the labour market is rolling over rapidly.

The data wasn't market moving, with falls in domestic rates more or less following the move down in Australian yields. NZGBs were 3-4bps lower across the curve while swaps were down 4-5bps. The overnight selloff in global bonds sees the Australian 10year bond future up 10bps in yield terms since the NZ close, setting the tone for higher rates on the NZ open.

In the day ahead, the ANZ business outlook survey is released, where the recent trend has been a lift in confidence and activity indicators, supported by higher net migration and expectations of a change to a more business-friendly government. We're more interested in the pricing indicators, which have been softening recently.

The key global release will be Germany CPI data tonight, expected to sharp fall in annual headline inflation from 6.4% y/y to 4.5% y/y. Australian retail sales, US jobless

claims and pending home sales will also be of some interest.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	ANZ activity outlook (net%)	Sep	11.2	13:00	
AU	Retail sales (m/m%)	Aug	0.3	0.5	14:30
EC	Economic confidence	Sep	92.4	93.3	22:00
GE	CPI EU harmonised (m/m%)	Sep	0.3	0.4	01:00
GE	CPI EU harmonised (y/y%)	Sep	4.5	6.4	01:00
US	GDP (ann'lisd q/q%)	Q2	2.2	2.1	01:30
US	Initial jobless claims (k)	Sep-23	215	201	01:30
US	Pending home sales (m/m%)	Aug	-1.0	0.9	03:00

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	0.5908	-0.6	0.5900	0.5944	CHF	0.9218	+0.6	S&P 500	4,241	-0.8	16.3	Oil (Brent)	96.54	+2.7
AUD	0.6339	-0.9	0.6332	0.6387	SEK	11.069	+0.6	Dow	33,362	-0.8	14.5	Oil (WTI)	93.50	+3.4
EUR	1.0496	-0.7	1.0491	1.0574	NOK	10.765	-0.5	Nasdaq	12,991	-0.6	20.0	Gold	1872.5	-1.5
GBP	1.2120	-0.3	1.2111	1.2164	HKD	7.821	-0.0	Stoxx 50	4,132	+0.1	24.1	HRC steel	718.0	+3.0
JPY	149.64	+0.4	148.98	149.69	CNY	7.312	+0.0	FTSE	7,593	-0.4	8.7	CRB	284.7	-0.1
CAD	1.3521	+0.0			SGD	1.373	+0.3	DAX	15,217	-0.3	25.4	Wheat Chic.	608.5	-1.3
NZD/AUD	0.9320	+0.3			IDR	15,520	+0.2	CAC 40	7,072	-0.0	22.9	Sugar	26.13	+0.1
NZD/EUR	0.5629	+0.1			THB	36.74	+0.9	Nikkei	32,372	+0.2	23.7	Cotton	88.18	+2.0
NZD/GBP	0.4875	-0.3			KRW	1,349	+0.0	Shanghai	3,107	+0.2	2.0	Coffee	149.3	-1.3
NZD/JPY	88.41	-0.2			TWD	32.24	+0.1	ASX 200	7,030	-0.1	8.8	WM powder	2980	-1.3
NZD/CAD	0.7988	-0.6			PHP	56.93	-0.1	NZX 50	11,317	-0.2	1.8	Australian Futures		
NZ TWI	70.38	-0.3										3 year bond	95.96	0.02
												10 year bond	95.52	-0.07
Interest Rates								NZ Government Bonds			NZ Swap Yields			
	Rates				Benchmark 10 Yr Bonds			Last			Last			
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day								
USD	5.50	5.65	5.07	4.32	USD	4.62	0.08	15-Apr-25	5.67	-0.04		1 year	5.89	-0.02
AUD	4.10	4.14	4.33	4.73	AUD	4.38	-0.02	15-Apr-27	5.30	-0.03		2 year	5.65	-0.05
NZD	5.50	5.71	5.65	5.06	NZD	5.18	-0.03	15-May-28	5.19	-0.03		5 year	5.13	-0.04
EUR	4.00	3.94	3.82	3.38	GER	2.84	0.04	15-May-31	5.17	-0.03		7 year	5.06	-0.04
GBP	5.25	5.40	5.17	4.29	GBP	4.36	0.03	14-Apr-33	5.18	-0.03		10 year	5.06	-0.04
JPY	-0.06	-0.03	0.21	0.91	JPY	0.74	0.00	15-May-41	5.40	-0.03		15 year	5.10	-0.04
CAD	5.00	5.51	5.46	4.56	CAD	4.11	0.09	15-May-51	5.39	-0.03				

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

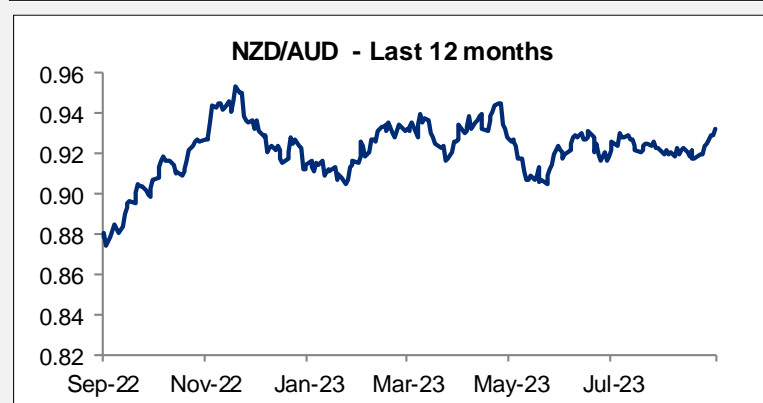
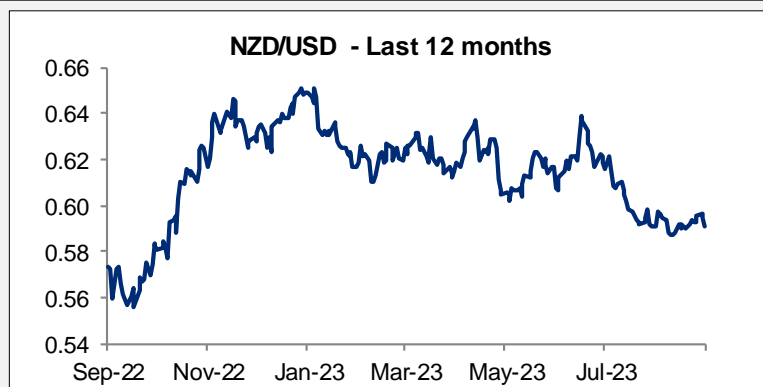
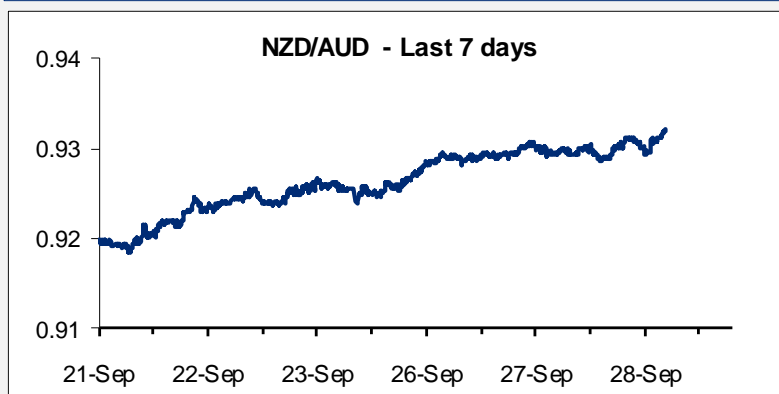
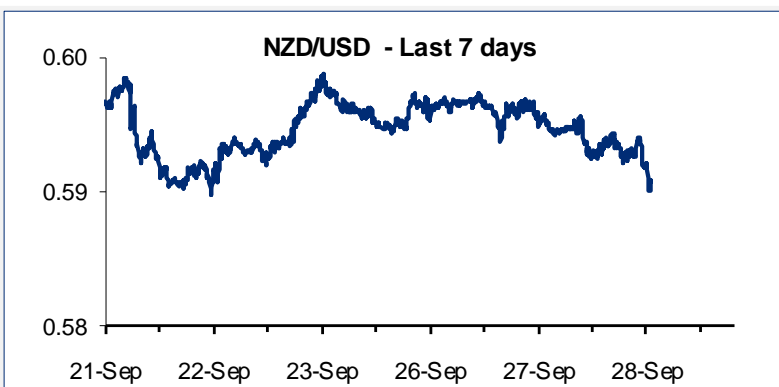
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:56

Source: Bloomberg

NZD exchange rates

27/09/2023	6:56 am	Prev. NY close
USD	0.5908	0.5945
GBP	0.4875	0.4890
AUD	0.9320	0.9293
EUR	0.5629	0.5623
JPY	88.41	88.62
CAD	0.7988	0.8036
CHF	0.5446	0.5444
DKK	4.1964	4.1929
FJD	1.3519	1.3595
HKD	4.6208	4.6499
INR	49.17	49.49
NOK	6.3601	6.4318
PKR	170.59	172.28
PHP	33.64	33.87
PGK	2.1445	2.1618
SEK	6.5396	6.5386
SGD	0.8114	0.8138
CNY	4.3198	4.3465
THB	21.58	21.62
TOP	1.3804	1.3874
VUV	72.29	72.90
WST	1.6333	1.6476
XPF	66.39	66.57
ZAR	11.3702	11.3417



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.14	0.36
3 Months	-0.15	0.71
6 Months	-0.69	0.77
9 Months	-3.91	-1.37
1 Year	-8.27	-4.77

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-10.90	-9.81
3 Months	-29.54	-27.45
6 Months	-60.35	-56.42
9 Months	-89.10	-82.79
1 Year	-115.54	-105.78

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