

Research Markets Today

1 November 2023

Events Round-Up

NZ: Dwelling consents (m/m%), Sep: -4.7 vs. -7.0 prev.
 NZ: ANZ own-activity outlook (net%), Oct: 23 vs. -11 prev.
 CH: Manufacturing PMI, Oct: 49.5 vs. 50.2 exp.
 CH: Non-manufacturing PMI, Oct: 50.6 vs. 52.0 exp.
 JN: BoJ 10-yr yield target (%), Oct: 0 vs. 0 exp.
 EA: GDP (q/q%), Q3: -0.1 vs. 0.0 exp,
 EA: CPI (y/y%), Oct: 2.9 vs. 3.1 exp.
 EA: CPI core (y/y%), Oct: 4.2 vs. 4.2 exp.
 US: Employment cost index (q/q%), Q3: 1.1 vs. 1.0 exp.
 CA: GDP (m/m%), Aug: 0.0 vs. 0.1 exp.
 US: Chicago PMI, Oct: 44.0 vs. 45.0 exp.
 US: Conf. Board consumer confid., Oct: 102.6 vs. 100.6 exp.

Good Morning

It has been a mostly uneventful end to the month, despite the heavy event calendar. The key market move has been a weaker JPY, even in the face of a further watering down of its yield curve control policy. There was a change in direction in US Treasuries and the USD after the US employment cost index came in slightly stronger than expected, although month-end flows could well have been a contributing factor. Broad-based USD strength sees a weaker NZD, with some support just over 0.58.

Yesterday, the BoJ made another tweak to its yield curve control policy, in the face of higher inflation pressure, with a now confusing policy that no longer strictly caps the 10-year rate at 1%, whilst keeping the “target” of 0%. The BoJ will allow yields to rise above 1% before “nimble conduct market operations” at some unspecified level above 1%. Remarkably, the Bank still sees inflation as transitory, with CPI inflation in FY2024 raised 0.9 percentage points to 2.8%, with inflation back to 1.7% the following year. That would mark three years of “transitory” inflation above the 2% target, possibly longer.

This all looks like part of a plan to exit its ultra-easy policy stance but in a minimalist way to reduce the shock to financial markets. The BoJ’s appetite to purchase unlimited amounts of bonds to keep long-term yields from rising has worn thin. Despite low market expectations for the BoJ to do anything at this meeting the yen has weakened further,

with a steady grind up in USD/JPY to 151.70, with no sign of official intervention to contain the move, and data showing that last month there was no official intervention early in the month when USD/JPY collapsed before rebounding. Japan’s 10-year rate traded as high as 0.95%, up 4bps on the day, and a fresh high for the cycle. NZD/JPY is up over 1% to 88.1.

In overnight news, as forewarned by weaker German and Spanish CPI data, data for the euro area undershot market expectations, with annual inflation down to a two-year low of 2.9% y/y. Core inflation fell to 4.2% y/y. And, as with the miss in German GDP, euro area GDP contracted by 0.1% q/q in Q3, a stark contrast to last week’s print in the US showing annualised growth of 4.9%. All roads point to the ECB not raising rates further this cycle and the market is entertaining the chance of easier policy from March next year.

The stark contrast in growth for the US also applies against Canada. Canada might be in technical recession, with preliminary data pointing to a small contraction in Q3 following the small contraction in Q2. Revisions could yet play a part when data are updated in a month.

In the US, the employment cost index was slightly higher than expected at 1.1% q/q and 4.3% y/y, the latter showing a steady decline in wage inflation pressure over the past year or so. Consumer confidence, measured by the Conference Board, fell to a 5-month low of 102.6. As we note below, rates and the USD turned higher after the stronger ECI report.

After we went to print yesterday, the US Treasury said it would cut its quarterly borrowing estimate to USD776b (previously USD852). Tonight, the Treasury releases the breakdown of that issuance between T-bills and Treasuries, and within that, the mix of duration. US Treasury yields have showed a slight flattening bias, with the 2-year rate up 2bps to 5.07% and the 10-year rate down 4bps to 4.86%. There was a change in direction in US rates after the employment cost index report (both 2 and 10-year rates higher), but month-end flows could well be a contributing factor. There was no obvious impact from the BoJ’s move to loosen its grip on JGB yields.

In currency markets, we’ve noted the weaker yen and the market will be testing the MoF’s tolerance for further weakness over coming days and weeks. Broad USD

strength has also been part of the mix, with EUR and GBP both showing modest net falls for the day, turning down after the US ECI report.

The NZD had a wee run up to 0.5855 last night before the turnaround in the USD sees it back trading just over the 0.58 mark. The AUD shows the same pattern and currently trades at 0.6335, with NZD/AUD pushing up to 0.9180.

Yesterday, China PMI data were weaker than expected, with the manufacturing index slipping back below 50 at 49.5 and the non-manufacturing index down to 50.6, suggesting the economy is struggling to gain traction even with a tailwind of stimulatory policy settings, and suggesting policy makers might need to do more to support the economy.

Domestic rates continued to be driven by offshore forces, with NZGBs up 4-5bps across the curve, seeing the 10-year rate close the month at 5.55%, up 24bps. Short-end swap rates remained pinned, with the 2-year rate unchanged at 5.58% and the 10-year rate up 6bps to 5.44%. So, further steepening of the swaps curve and 2s10s steeper by 40bps for the month overall.

There was no reaction to domestic data showing dwelling consents continuing to fall steadily and now down 35% y/y. The ANZ business outlook survey showed another incremental lift in confidence and activity indicators, with businesses correctly anticipating the change of government. This leaves the own-activity reading of +23% close to its long-term average, although now biased upward for as long as the National-led government remains in place. There was more information content in the pricing indicators that remained sticky, raising a question-mark over the pace of inflationary decline from here.

In the day ahead, the RBNZ releases its half-yearly Financial Stability Report, some of which has already been pre-released. NZ labour market data are expected to show

still-strong, but peaking, wage inflation, with modest employment growth and strong growth in labour supply driving a lift in the unemployment rate to a fresh 2-year high of 3.9% (BNZ below consensus at 3.7%, RBNZ at 3.8%).

The key global releases will be the US JOLTS report and ISM manufacturing index. At 7am the FOMC will release its latest statement, with Chair Powell's talking from 7:30am, so we'll delay the release of tomorrow's Markets Today to capture the initial market reaction. The Fed is widely anticipated to keep policy unchanged. Chair Powell's message is likely to be similar to what he said just over a week ago – that the Fed would “proceed carefully” and “make decisions about the extent of additional policy firming and how long policy will remain restrictive based on the totality of the incoming data, the evolving outlook, and the balance of risks.” A repeat of the message shouldn't perturb the market.

jason.k.wong@bnz.co.nz

Coming Up

			Period	Cons.	Prev.	NZT
NZ	RBNZ publishes Financial Stability Report					09:00
NZ	LCI pvt wages x overtime (q/q%)	Q3	1.0	1.1		10:45
NZ	Employment (q/q%)	Q3	0.4	1.0		10:45
NZ	Unemployment rate (%)	Q3	3.9	3.6		10:45
NZ	QES avg hrly earnings (q/q%)	Q3		1.9		10:45
AU	Building approvals (m/m%)	Sep	2.5	7.0		13:30
CH	Caixin PMI manufacturing	Oct	50.8	51.0		14:45
US	ADP employment change (k)	Oct	150	89		01:15
US	JOLTS job openings (m)	Sep	9.35	9.61		03:00
US	ISM manufacturing	Oct	49.0	49.0		03:00
US	FOMC policy rate (upper bd%)	Nov	5.5	5.5		07:00
US	Chair Powell holds post-FOMC press conference					07:30

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	0.5817	-0.5	0.5804	0.5857	CHF	0.9096	+0.8	S&P 500	4,181	+0.4	8.0	Oil (Brent)	87.51	+0.1	
AUD	0.6337	-0.6	0.6315	0.6374	SEK	11.175	+0.3	Dow	32,996	+0.2	0.8	Oil (WTI)	81.28	-1.2	
EUR	1.0570	-0.4	1.0558	1.0675	NOK	11.178	+0.3	Nasdaq	12,822	+0.2	16.7	Gold	1994.4	-0.5	
GBP	1.2146	-0.2	1.2120	1.2201	HKD	7.825	+0.1	Stoxx 50	4,061	+0.8	12.3	HRC steel	870.0	-0.1	
JPY	151.50	+1.6	150.07	151.71	CNY	7.317	+0.1	FTSE	7,322	-0.1	3.2	CRB	280.8	-1.5	
CAD	1.3884	+0.4			SGD	1.370	+0.4	DAX	14,810	+0.6	11.7	Wheat Chic.	585.3	-1.5	
NZD/AUD	0.9179	+0.2			IDR	15.885	-0.0	CAC 40	6,886	+0.9	9.9	Sugar	27.09	+1.3	
NZD/EUR	0.5503	-0.0			THB	36.10	+0.5	Nikkei	30,859	+0.5	11.5	Cotton	81.56	-1.6	
NZD/GBP	0.4789	-0.2			KRW	1,351	-0.0	Shanghai	3,019	-0.1	1.7	Coffee	167.3	+4.7	
NZD/JPY	88.13	+1.2			TWD	32.40	-0.0	ASX 200	6,781	+0.1	-2.8	WM powder	3155	+0.2	
NZD/CAD	0.8076	-0.0			PHP	56.74	-0.2	NZX 50	10,758	+0.2	-4.9	Australian Futures			
NZ TWI	69.36	-0.1										3 year bond	95.57	-0.04	
Interest Rates													10 year bond	95.03	-0.03
	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	5.64	4.96	4.50	USD	4.86	-0.03	15-Apr-25	5.57	-0.03	1 year	5.76	0.01		
AUD	4.10	4.35	4.64	5.25	AUD	4.93	0.05	15-Apr-27	5.35	0.04	2 year	5.58	-0.00		
NZD	5.50	5.64	5.58	5.44	NZD	5.55	0.05	15-May-28	5.36	0.04	5 year	5.31	0.03		
EUR	4.00	3.97	3.59	3.35	GER	2.81	-0.02	15-May-31	5.50	0.05	7 year	5.35	0.04		
GBP	5.25	5.37	4.97	4.37	GBP	4.51	-0.05	14-Apr-33	5.55	0.05	10 year	5.44	0.06		
JPY	-0.01	-0.03	0.29	1.13	JPY	0.95	0.06	15-May-41	5.76	0.05	15 year	5.53	0.07		
CAD	5.00	5.58	5.06	4.47	CAD	4.02	-0.02	15-May-51	5.67	0.04					

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

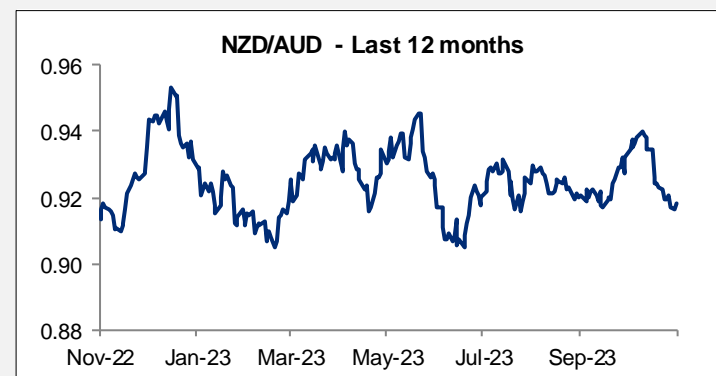
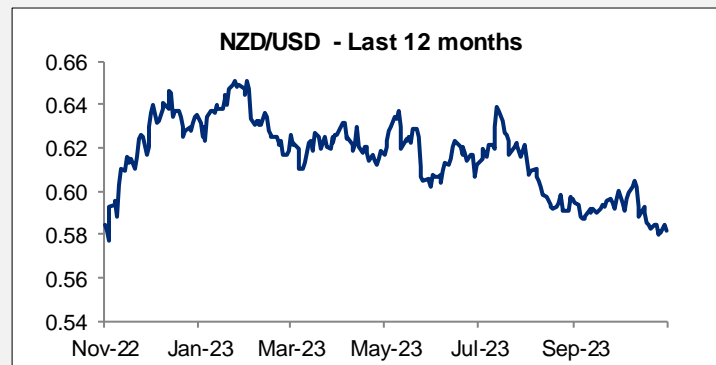
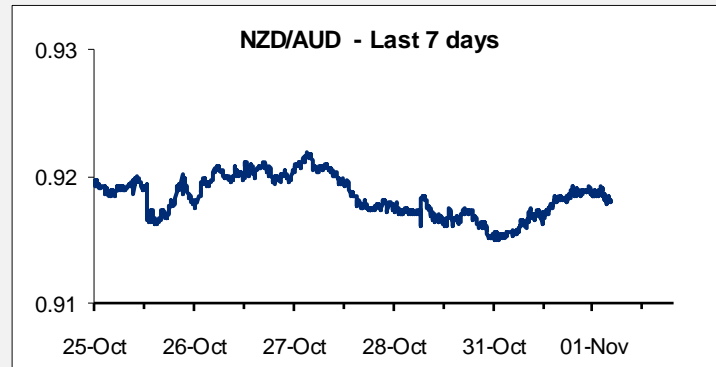
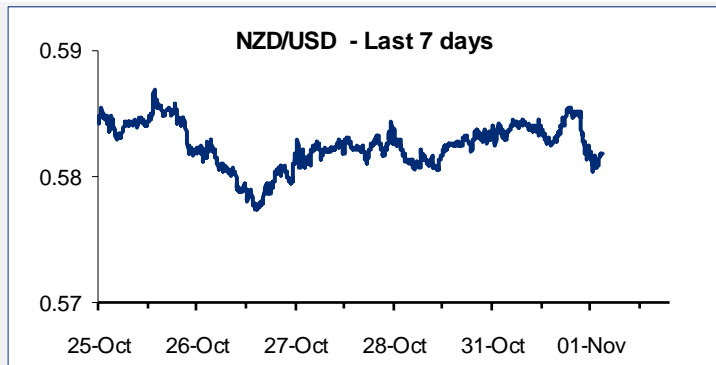
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:47

Source: Bloomberg

NZD exchange rates

31/10/2023 6:47 am		Prev. NY close
USD	0.5817	0.5844
GBP	0.4789	0.4802
AUD	0.9179	0.9168
EUR	0.5503	0.5505
JPY	88.13	87.13
CAD	0.8076	0.8080
CHF	0.5291	0.5271
DKK	4.1079	4.1095
FJD	1.3308	1.3475
HKD	4.5520	4.5704
INR	48.43	48.65
NOK	6.5024	6.5140
PKR	163.71	164.18
PHP	33.00	33.29
PGK	2.1592	2.1685
SEK	6.5006	6.5128
SGD	0.7969	0.7973
CNY	4.2559	4.2725
THB	20.91	21.02
TOP	1.3970	1.3848
VUV	71.71	72.13
WST	1.6186	1.6220
XPF	65.63	65.65
ZAR	10.8901	11.0203



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	0.33	0.67
3 Months	1.50	2.00
6 Months	2.37	3.49
9 Months	0.82	2.71
1 Year	-3.92	-0.92

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-9.10	-8.33
3 Months	-25.44	-24.20
6 Months	-46.76	-43.59
9 Months	-63.94	-58.77
1 Year	-79.56	-71.29

Contact Details

BNZ Research

Stephen Toplis

Head of Research
+64 4 474 6905

Craig Ebert

Senior Economist
+64 4 474 6799

Doug Steel

Senior Economist
+64 4 474 6923

Jason Wong

Senior Markets Strategist
+64 4 924 7652

Stuart Ritson

Senior Interest Rate Strategist
+64 9 9248601

Mike Jones

BNZ Chief Economist
+64 9-956 0795

Main Offices

Wellington

Level 2, BNZ Place
1 Whitmore Street
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

Auckland

80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

Christchurch

111 Cashel Street
Christchurch 8011
New Zealand
Toll Free: 0800 854 854

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