

# Research Markets Today

2 February 2024

## Events Round-Up

US: FOMC Rate (upper bd %), Jan: 5.5 vs. 5.5 exp.  
 CH: Caixin PMI manufacturing, Jan: 50.8 vs. 50.8 exp.  
 EC: CPI (y/y%), Jan: 2.8 vs. 2.7 exp.  
 EC: CPI core (y/y%), Jan: 3.3 vs. 3.2 exp.  
 EC: Unemployment rate (%), Dec: 6.4 vs. 6.4 exp.  
 UK: Bank of England Bank Rate (%), Jan: 5.25 vs. 5.25 exp.  
 US: Nonfarm productivity, Q4: 3.2 vs. 2.5 exp.  
 US: Initial jobless claims, wk to Jan 27: 224 vs. 212 exp.  
 US: ISM manufacturing, Jan: 49.1 vs. 47.2 exp.

## Good Morning

In the wake of the Fed's policy update yesterday and the regional banking "scare", US Treasury yields have pushed down further to fresh lows for the year. Benign US economic data supported Treasuries, and drove a downturn in the USD, helping the NZD recover from overnight lows. The Bank of England removed its tightening bias but didn't rock the market.

Soon after we went to print yesterday, the Fed officially removed any remnants of its tightening bias, with the committee looking for greater confidence that inflation is moving sustainably toward 2% before cutting rates. However, Chair Powell pushed back on the likelihood of cutting rates as soon as the next meeting saying, "I don't think it's likely that the committee will reach a level of confidence by the time of the March meeting...but that's to be seen".

In overnight news, US labour market data were bond-friendly, with initial jobless claims unexpectedly rising by 9k last week to 224k. Continuing claims, which are lagged by a week, jumped 70k to almost 1.9m, just below the 1.925m November peak. Nonfarm productivity growth rose a stronger than expected annualised 3.2% in Q4 which means that unit labour costs were weaker than expected, running at an annualised 0.5%, the second consecutive weak quarter. The market puts more weight on the nonfarm payrolls report due tonight, but these figures add to the evidence of inflation moving sustainably back to target.

The US ISM manufacturing index unexpectedly rose 2pts to 49.1, with the consensus estimate swayed by the series of weak regional leading indicators. The data suggest that the sector is contracting at a reduced pace and on track for a recovery of sorts. On that note the headline figure was driven by a jump in new orders to 52.5, the first above-50 reading in 18 months.

The soft labour market data has had more influence on the bond market than the ISM data, dragging US Treasury yields lower. The curve has flattened, with the 2-year rate down 1bps on the day to 4.20% and the 10-year rate down 5bps to 3.87%, after trading down to 3.82%, a new low for the year. For the 5-year rate it was a case of a new low since June, as it traded down to 3.75%.

While Chair Powell didn't see a March rate cut as likely, at the end of the day the incoming data will determine the case for an early cut and the weaker data has seen the odds for a March cut improve, pricing lifting a couple of bps to 11bps.

The US equity market is taking yesterday's shocking earnings announcement by NY Community Bancorp, due to its increased provisioning for loan losses, in its stride with no sign of contagion across the broader market. The S&P500 index is currently up 0.7%, with most sectors making a positive contribution, Financials and Energy excluded. The KBW regional banking index is down 2% after yesterday's 6% decline.

In other key overnight news, the Bank of England left its policy rate at 5.25% in a 6-3 decision, with the MPC remaining split. Remarkably, two MPC members continued to vote for a 25bps hike, while one member continued to prefer a 25bps cut. Like the Fed yesterday, the BoE removed reference to any tightening bias in the official statement and ended with "...the Committee will keep under review for how long Bank Rate should be maintained at its current level".

Governor Bailey acknowledged that keeping rates unchanged from here would push inflation "significantly" below target of 2%, the projections showing inflation would fall to 1.4% in two years and 0.9% in three years. But he also noted that using the market-implied path for rates, inflation would be above target for much of the next three years, concluding "we need to get the balance right". Market reaction to the policy update was muted, with little

change in rate cut expectations for this year (115bps priced, beginning with a full cut by June) and modest moves in GBP, with the USD-leg in charge.

On that note, the USD was tracking higher after the NZ close before reversing course following the weaker labour market data. The NZD traded lower, down to 0.6080, and has since recovered to 0.6140. The AUD fell below 0.6510 and has recovered to 0.6570, both currencies back near where they were at the NZ close.

Other currencies have performed a little better. The EUR is modestly higher overnight to 1.0875. Euro area CPI inflation fell, but not quite as much as the market expected, both the headline and core measures both coming in 0.1% higher than expected at 2.8% y/y and 3.3% respectively. However, the figures didn't perturb the market, which still prices a full ECB rate cut by April. GBP and JPY are also modestly higher, so most NZD crosses are lower overnight, with NZD/AUD flat at 0.9345, after pushing a little higher in NZ afternoon trading.

In the domestic rates market, the government's nominal bond tender was again underwhelming, the third in a row, with low bid cover (1.3 to 1.9 across the three lines) although, on a positive note, clearing within 1 bps of prevailing mids. The soft tenders come ahead of NZDM's syndication of new 30-year bonds, expected to be

launched in a couple of weeks. Still, NZGBs performed broadly in line with swaps, with yields down 2-3bps across the curve. The 2-year swap rate fell 1bps to 4.77% and the 10-year rate fell 3bps to 4.37%.

In the day ahead, NZ consumer confidence and building permits data are released. Global focus will be on the US employment report tonight, where the consensus sees job growth slowing to 185k in January, the unemployment rate ticking up to 3.8% and annual average hourly earnings remaining steady at 4.1% y/y.

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## Coming Up

		Period	Cons.	Prev.	NZT
NZ	ANZ consumer confidence	Jan	93.1	10:00	
NZ	Building permits (m/m%)	Dec	-10.6	10:45	
AU	Home loans value (m/m%)	Dec	1.0	1.0	13:30
US	Change in nonfarm payrolls (k)	Jan	185	216	02:30
US	Unemployment rate (%)	Jan	3.8	3.7	02:30
US	Avg hourly earnings (m/m%)	Jan	0.3	0.4	02:30
US	Avg hourly earnings (y/y%)	Jan	4.1	4.1	02:30

Source: Bloomberg, BNZ

Currencies								Equities				Commodities				
Indicative overnight ranges (*)					Other FX			Major Indices				Price (Near futures, except CRB)				
	Last	% Day	Low	High		Last	% Day		Last	% Day	% Year		Last	Net Day		
NZD	0.6137	+0.3	0.6080	0.6140	CHF	0.8585	-0.3	S&P 500	4,881	+0.7	18.5	Oil (Brent)	79.19	-1.4		
AUD	0.6568	+0.0	0.6508	0.6572	SEK	10.394	+0.0	Dow	38,477	+0.8	12.9	Oil (WTI)	74.53	-1.5		
EUR	1.0874	+0.5	1.0780	1.0875	NOK	10.447	-0.6	Nasdaq	15,336	+1.1	29.8	Gold	2060.0	+0.6		
GBP	1.2738	+0.4	1.2626	1.2740	HKD	7.819	+0.0	Stoxx 50	4,639	-0.2	11.2	HRC steel	969.0	+0.6		
JPY	146.38	-0.4	145.90	147.12	CNY	7.181	+0.2	FTSE	7,622	-0.1	-1.8	CRB	272.4	-0.6		
CAD	1.3379	-0.4			SGD	1.337	-0.3	DAX	16,859	-0.3	11.1	Wheat Chic.	605.3	+0.0		
NZD/AUD	0.9344	+0.3			IDR	15,765	-0.1	CAC 40	7,589	-0.9	7.2	Sugar	23.65	-1.9		
NZD/EUR	0.5644	-0.2			THB	35.35	-0.6	Nikkei	36,011	-0.8	31.4	Cotton	86.67	+1.8		
NZD/GBP	0.4818	-0.1			KRW	1,332	-0.2	Shanghai	2,771	-0.6	-15.7	Coffee	194.6	+0.3		
NZD/JPY	89.83	-0.0			TWD	31.33	+0.1	ASX 200	7,588	-1.2	1.0	WM powder	3320	-1.3		
NZD/CAD	0.8211	-0.1			PHP	56.12	-0.3	NZX 50	11,917	+0.4	-1.9	Australian Futures				
NZ TWI	71.62	+0.2						VIX Index	14.24	-0.8	-20.3	3 year bond	96.46	0.00		
Interest Rates																
Rates		Swap Yields			Benchmark 10 Yr Bonds			NZ Government Bonds				NZ BKBM and Swap Yields				
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day			Last	Chg		Last	Chg		
USD	5.50	5.58	4.05	3.51	USD	3.87	-0.05	15-May-26		4.59	-0.02	BKBM 1-mth	5.59	0.00		
AUD	4.35	4.33	3.83	4.22	AUD	4.01	0.00	15-Apr-27		4.44	-0.02	BKBM 3-mth	5.67	0.00		
NZD	5.50	5.67	4.77	4.37	NZD	4.58	-0.02	15-May-28		4.36	-0.03	1 year	5.34	-0.00		
EUR	4.00	3.91	2.89	2.55	GER	2.15	-0.02	20-Apr-29		4.34	-0.03	2 year	4.77	-0.01		
GBP	5.25	5.32	4.23	3.56	GBP	3.75	-0.05	15-May-30		4.39	-0.03	3 year	4.47	-0.02		
JPY	-0.01	-0.03	0.22	0.88	JPY	0.71	-0.03	15-May-31		4.45	-0.03	5 year	4.28	-0.03		
CAD	5.00	5.40	4.36	3.63	CAD	3.27	-0.05	15-May-32		4.50	-0.03	7 year	4.29	-0.03		
					NZ Inflation-Indexed Bonds			14-Apr-33		4.53	-0.03	10 year	4.37	-0.03		
* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer  Rates are as of: NZT 06:56 Source: Bloomberg					Sep-30	2.34	-0.03	15-May-34		4.58	-0.02	15 year	4.52	-0.03		
					Sep-35	2.65	-0.03	15-May-37		4.73	-0.02					
					Sep-40	2.88	-0.03	15-May-41		4.83	-0.02					
								15-Mav-51		4.83	-0.02					

**NZD exchange rates**

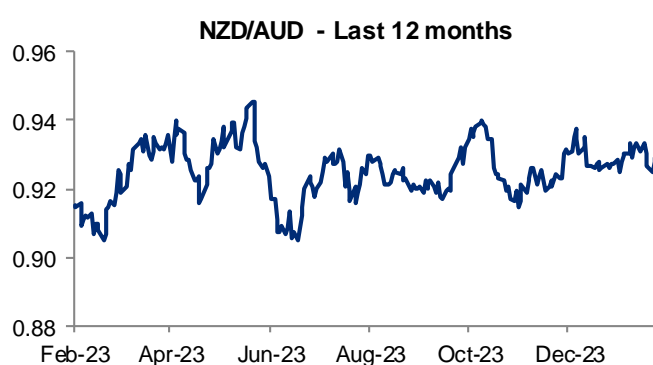
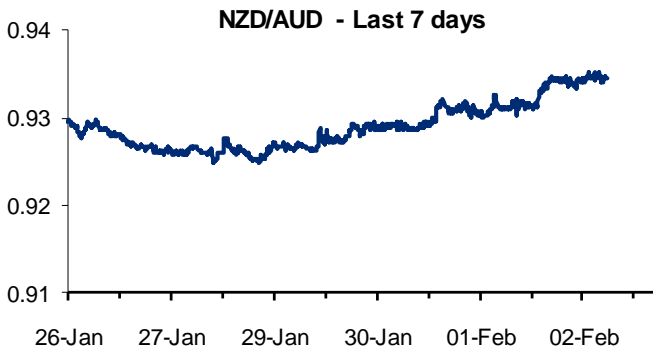
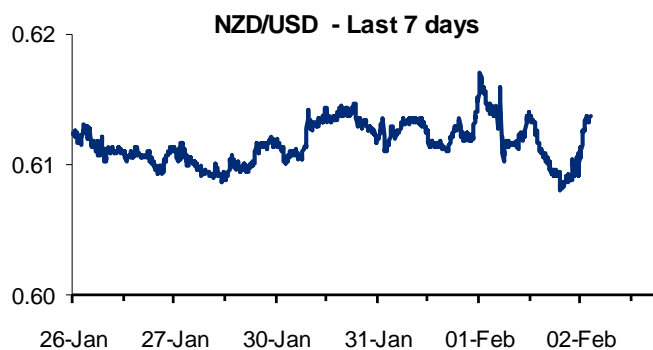
<b>2/02/2024</b>	<b>6:56 am</b>	<b>Prev. NY close</b>
USD	0.6137	0.6117
GBP	0.4818	0.4821
AUD	0.9344	0.9313
EUR	0.5644	0.5654
JPY	89.83	89.87
CAD	0.8211	0.8218
CHF	0.5269	0.5269
DKK	4.2065	4.2152
FJD	1.3816	1.3827
HKD	4.7986	4.7823
INR	50.92	50.80
NOK	6.4112	6.4260
PKR	171.51	170.97
PHP	34.44	34.44
PGK	2.2976	2.2825
SEK	6.3786	6.3564
SGD	0.8203	0.8202
CNY	4.4067	4.3852
THB	21.76	21.70
TOP	1.4322	1.4369
VUV	74.25	73.96
WST	1.6719	1.6607
XPF	67.42	67.38
ZAR	11.4119	11.4296

**NZD/USD Forward Points**

	<b>BNZ buys NZD</b>	<b>BNZ sells NZD</b>
1 Month	0.03	0.43
3 Months	-0.44	0.06
6 Months	-5.61	-4.61
9 Months	-13.21	-10.79
1 Year	-21.80	-18.80

**NZD/AUD Forward points**

	<b>BNZ buys NZD</b>	<b>BNZ Sells NZD</b>
1 Month	-8.86	-7.96
3 Months	-27.10	-25.82
6 Months	-53.15	-50.20
9 Months	-74.28	-68.07
1 Year	-92.39	-83.34



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