

Research Markets Today

2 May 2024

Events Round-Up

NZ: LCI pvt wages x overtime (q/q%), Q1: 0.8 vs. 0.8 exp.
 NZ: Unemployment rate, Q1: 4.3 vs. 4.3 exp.
 NZ: Employment (q/q%), Q1: -0.2 vs. 0.3 exp.
 US: ADP employment change (k), Apr: 192 vs. 180 exp.
 US: JOLTS job openings (m), Mar: 8.5 vs. 8.7 exp.
 US: ISM manufacturing, Apr: 49.2 vs. 50.0 exp.
 US: FOMC Fed Funds (upper bd, %), May: 5.5 vs. 5.5 exp.

Good Morning

The Fed's policy update didn't offer any surprises and there was little initial market reaction, but US rates and the USD fell during Chair Powell's press conference, where the clear message was one of an easing bias, with a rate hike "unlikely". As we go to print, US Treasuries are down around 10bps on the day and the NZD is trading at its highs, up towards 0.5940.

The Fed kept policy steady and introduced new language into the Statement. The opening paragraph noted "In recent months, there has been a lack of further progress toward the Committee's 2 percent inflation objective." This was a statement of fact and well aired by recent Fed speakers. The only other notable change to the description of the economy was "The Committee judges that the risks to achieving its employment and inflation goals have moved toward better balance over the past year", previously framed as "are moving into". There was no change to forward guidance, the committee still needing to gain greater confidence that inflation is moving sustainably toward 2% before cutting rates.

The market expected a tapering of its QT programme at this announcement and this was provided, with the Fed reducing the monthly redemption cap on Treasury securities from \$60b to \$25b beginning next month, leaving unchanged the pace regarding MBS but reinvesting principal repayments in excess of the \$35b monthly cap into Treasuries.

Fed Chair Powell's opening remarks conveyed the easing bias noted in the official statement, with the Fed looking for reasons why it could cut rates, with no mention of the possibility of raising rates. In response to a question, Powell said it was "unlikely that the next policy rate move

will be a hike", the Fed would need to see "persuasive evidence that the policy stance wasn't restrictive enough.

Following little initial market reaction, Powell's dovish comments got the market's attention as it was prepared for a hawkish update, driving US Treasury yields and the USD lower. As we go to print Powell is still talking, but US 2 and 10-year rates are down close to 10bps, extending a modest fall earlier in the session. The USD is broadly weaker. Pre the FOMC meeting the NZD was around 0.59 and it has pushed up to its high for the day towards 0.5940. NZD crosses are modestly stronger, apart from NZD/AUD edging back down towards 0.9080.

Ahead, of the Fed meeting, US economic data releases supported a small fall in Treasury yields. The ISM manufacturing index fell 1.1pts to 49.2 in April, so back into contractionary territory after the previous month's upside surprise. Prior to the March reading, the index was below 50 since October 2022. New orders also moved back below 50. The prices paid index rose to a near two-year high of 60.9, raising an inflation warning, although this component is correlated with global commodity prices, which have been heading higher.

The JOLTS survey showed further signs of easing labour market pressures, with the number of job openings down to a three-year low of 8.49m and the quits rate, a good leading indicator of wage inflation, fell to 2.1%, the lowest since August 2020. The survey should help allay concern about the inflation outlook after the stronger than expected employment cost index for Q1 released yesterday. ADP private payrolls rose 192k in April, higher than the 180k expected but, for some time, the data have been a poor predictor of the more important non-farm payrolls figures due at the end of the week.

The US Treasury's quarterly refunding announcement was in line with the consensus, leaving the issuance of longer-term debt unchanged. Treasury said they didn't anticipate having to increase sales of regular notes and bonds "for at least the next several quarters".

Key NZ labour market data were in line with expectations, with the unemployment rate rising to a three-year high of 4.3% and the labour cost index rising by 0.8% q/q, taking the annual increase to an 18-month low of 3.8%. The message was one of a clear easing in labour market pressures, driving weaker wage inflation. With recessionary economic conditions lingering, the unemployment is well on its way towards rising further,

indeed the pace of increase could well pick up, as it stretches towards 5½%, paving the way for further disinflationary pressure.

The data had only a temporary impact on the market, pushing yields and the NZD a little lower on the headline of employment falling by 0.2% and the lower participation rate, but the move wasn't sustained. The NZGB and swap curves showed a slight steepening bias. The 2-year swap rate closed 1bp lower to 5.10% and the 10-year rate rose 2bps to 4.78%. NZGB yields were flat to 3bps higher across the curve, the 10-year rate rose 3bps to 4.92%.

In the day ahead there are only second-tier data released, unlikely to move the market.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Dwelling consents (m/m%)	Mar	14.9	10:45	
AU	Trade balance (\$b)	Mar	7.3	7.3	13:30
AU	Building approvals (m/m%)	Mar	3.4	-1.9	13:30
US	Trade balance (\$b)	Mar	-69.7	-68.9	00:30
US	Nonfarm productivity (ann'lisd q/q%)	Q1	0.7	3.2	00:30
US	Initial jobless claims (k)	27-Apr	211	207	00:30

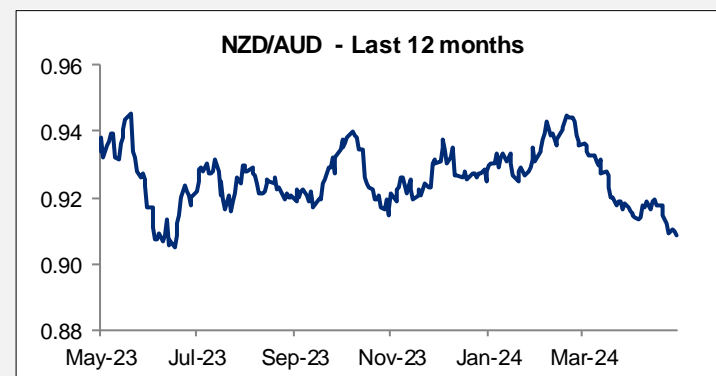
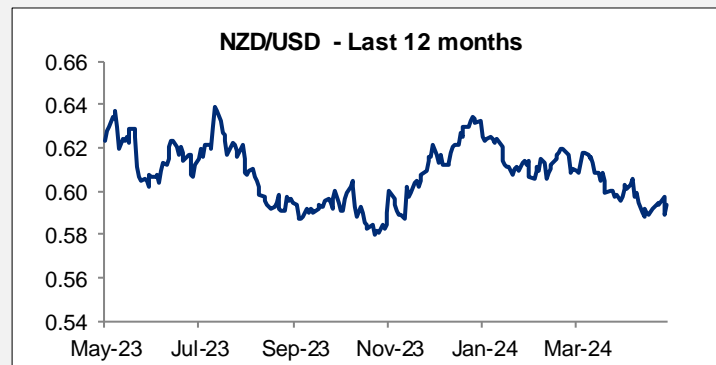
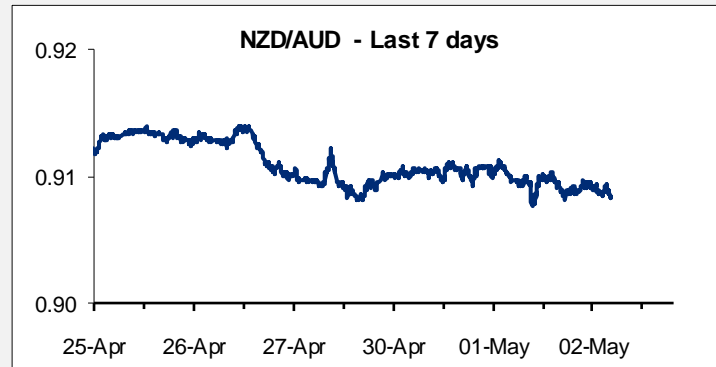
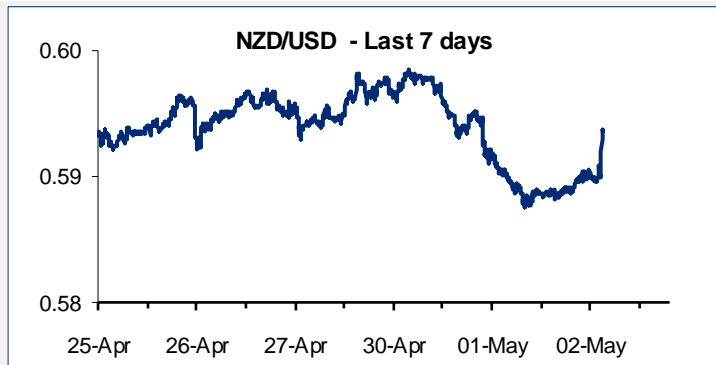
Source: Bloomberg, BNZ

Currencies						Equities				Commodities					
Global froces		Indicative overnight ranges (*)		Other FX		Major Indices				Price (Near futures, except CRB)					
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day				
NZD	0.5935	+0.8	0.5881	0.5940	CHF	0.9165	-0.3		S&P 500	5,075	+0.8	21.8	Oil (Brent)	83.60	-3.2
AUD	0.6534	+0.9	0.6474	0.6540	SEK	10.901	-1.1		Dow	38,306	+1.3	12.5	Oil (WTI)	79.21	-3.3
EUR	1.0726	+0.5	1.0652	1.0733	NOK	11.011	-0.9		Nasdaq	15,903	+1.5	30.2	Gold	2336.5	+1.5
GBP	1.2545	+0.4	1.2468	1.2550	HKD	7.823	-0.0		Stoxx 50	4,921	+0.0	12.9	HRC steel	810.0	-0.4
JPY	157.17	-0.4	157.01	157.99	CNY	7.241	+0.2		FTSE	8,121	-0.3	3.2	CRB	291.5	-1.3
CAD	1.3709	-0.5			SGD	1.360	-0.4		DAX	17,932	-1.0	12.6	Wheat Chic.	599.5	-0.6
NZD/AUD	0.9083	-0.1			IDR	16,259	+0.0		CAC 40	7,985	-1.0	6.6	Sugar	19.22	-1.0
NZD/EUR	0.5533	+0.2			THB	36.98	-0.6		Nikkei	38,274	-0.3	31.3	Cotton	75.81	-2.6
NZD/GBP	0.4731	+0.4			KRW	1,387	+0.4		Shanghai	3,105	-0.3	-6.6	Coffee	216.0	-0.7
NZD/JPY	93.28	+0.4			TWD	32.58	+0.0		ASX 200	7,570	-1.2	4.2	WM powder	3125	+0.0
NZD/CAD	0.8136	+0.3			PHP	57.83	+0.1		NZX 50	11,868	-0.8	-1.4	Australian Futures		
NZ TWI	70.33	+0.5						VIX Index	14.91	-4.7	-7.3	3 year bond	95.89	-0.08	
Interest Rates										10 year bond			95.53	0.02	
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	5.59	4.88	4.23	USD	4.59	-0.09	15-May-26	4.91	-0.00	BKBM 1-mth	5.60	0.00		
AUD	4.35	4.40	4.40	4.69	AUD	4.51	0.09	15-Apr-27	4.77	0.00	BKBM 3-mth	5.64	0.00		
NZD	5.50	5.64	5.10	4.78	NZD	4.92	0.03	15-May-28	4.74	0.00	1 year	5.49	-0.01		
EUR	4.00	3.83	3.39	2.86	GER	2.58	0.05	20-Apr-29	4.73	0.01	2 year	5.10	-0.01		
GBP	5.25	5.30	4.77	4.09	GBP	4.37	0.02	15-May-30	4.76	0.01	3 year	4.86	-0.00		
JPY	0.08	-0.03	0.36	0.97	JPY	0.89	0.01	15-May-31	4.81	0.02	5 year	4.69	-0.00		
CAD	5.00	5.28	4.66	4.07	CAD	3.74	-0.07	15-May-32	4.85	0.02	7 year	4.70	0.00		
						NZ Inflation-Indexed Bonds				10 year			4.78	0.02	
										15-May-34			4.92	0.03	
										15-May-35			4.97	0.03	
										15-May-37			5.07	0.03	
										15-May-41			5.19	0.02	
										15-May-51			5.17	0.03	
										15-May-54			5.20	0.03	

* These are indicative r 07:03
 please confirm rates with your BNZ dealer
 Rates are as of: NZT
 Source: Bloomberg

NZD exchange rates

2/05/2024	7:03 am	Prev. NY close
USD	0.5935	0.5888
GBP	0.4731	0.4713
AUD	0.9083	0.9096
EUR	0.5533	0.5520
JPY	93.28	92.91
CAD	0.8136	0.8112
CHF	0.5439	0.5413
DKK	4.1274	4.1175
FJD	1.3625	1.3517
HKD	4.6430	4.6067
INR	49.52	49.15
NOK	6.5349	6.5453
PKR	165.25	163.73
PHP	34.29	33.96
PGK	2.2558	2.2328
SEK	6.4696	6.4914
SGD	0.8073	0.8040
CNY	4.2976	4.2564
THB	21.99	21.81
TOP	1.3929	1.4019
VUV	72.09	71.57
WST	1.6305	1.6137
XPF	66.12	65.79
ZAR	11.0099	11.0589



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.16	0.11
3 Months	-0.26	0.24
6 Months	-0.74	0.27
9 Months	-1.05	0.95
1 Year	-1.02	1.97

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-9.10	-8.45
3 Months	-25.13	-23.94
6 Months	-44.34	-41.41
9 Months	-59.34	-53.95
1 Year	-70.45	-61.92

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