

Research Markets Today

2 November 2023

Events Round-Up

NZ: LCI pvt wages x overtime (q/q%), Q3: 0.8 vs. 1.0 exp.

NZ: Employment (q/q%), Q3: -0.2 vs. 0.4 exp.

NZ: Unemployment rate (%), Q3: 3.9 vs. 3.9 exp.

AU: Building approvals (m/m%), Sep: -4.6 vs. 2.5 exp.

CH: Caixin PMI manufacturing, Oct: 49.5 vs. 50.8 exp.

US: ADP employment change (k), Oct: 113 vs. 150 exp.

US: JOLTS job openings (m), Sep: 9.55 vs. 9.40 exp.

US: ISM manufacturing, Oct: 46.7 vs. 49.0 exp.

US: FOMC policy rate (upper bd%), Nov: 5.5 vs. 5.5 exp.

Good Morning

Ahead of the Fed announcement this morning, the US 10-year rate fell 12bps to 4.8%, with Treasury looking to slow the pace of increase in long-term debt issuance and a soft ISM manufacturing print further supported the market. There was little reaction to the Fed's on-hold rates decision. NZ labour market data drove lower rates and an NZD, but the currency reaction reversed overnight.

For the second consecutive meeting, the Fed left its target range for the Fed Funds rate at 5.25-5.5%. In the Statement there was no change to policy guidance, which maintained the now familiar modest tightening bias. In the description of current conditions, there were only minor edits, but of note the Fed acknowledged tighter financial conditions, viz "Tighter financial and credit conditions for households and business are likely to weigh on economic activity, hiring and inflation". The previous statement made no mention of financial conditions. The statement repeated that "inflation remains elevated" as well as "the committee remains highly attentive to inflation risks".

In the press conference Chair Powell repeated recent messages that the stance of policy was restrictive, the full impact of tighter policy had yet to be felt, the FOMC would be proceeding carefully and the process of getting inflation to 2% has a long way to go.

As we go to print the Q&A is underway, but the initial market reaction to the Fed has been small, with the moves seen before the announcement – lower rates, higher equities and modest USD strength being sustained.

At its quarterly refunding announcement, the US Treasury said it would slow the pace at which it issues longer-dated debt, which came as a relief to the beaten-up bond market. Auction sizes of 2-5 year notes would be lifted by \$3b per month, with a rise in 10-year note auctions by \$2b and in 30-year note auctions by \$1b. Next week the Treasury will sell \$112b of debt, less than the \$114b expected by the market. The Treasury anticipated one more quarter of larger auctions. Furthermore, Treasury acknowledged softening demand for Treasuries, with more liquidity and demand for securities of less than 10-years maturity.

The announcement triggered a notable fall in Treasury yields, led by the long end of the curve, and this move was later extended after the weak ISM report. The ISM manufacturing index fell 2.3pts to 46.7 in October, below consensus of 49.0 which was based on the previously released regional surveys. Both the employment and new orders indices fell. The data suggests a setback for the recent recovery in manufacturing activity.

Ahead of the Fed meeting, the 2-year rate was down 6bps on the day, with falls of 12bps for the 10-year and 30-year rates. The 10-year rate fell to as low as 4.78%, before nudging back up to 4.81% ahead of the Fed.

US labour market data were mixed. ADP private payrolls rose by 113k in October, less than the 150k expected by the consensus. The series has been a poor indicator of non-farm payrolls, the more important metric for the market which is released at the end of the week, where expectations sit at 180k. Job openings increased 56k to 9.55m in September, above the 9.40m expected, although the surprise was mitigated by a downward revision to August. The ratio of job openings to unemployed was steady at 1.5, still well down from the peak of 2, while the quits rate held steady at 2.3%.

Yesterday, Japan's MoF was forced to ramp up some verbal intervention on the yen, after the BoJ's still ultra-easy policy stance invited further weakness in the currency. Japan's top currency official said "we're very concerned about one-sided, sudden moves in currencies...we're on standby". Japan's 10-year rate rose to a fresh cycle high of 0.97% before edging lower after the BoJ announced an unscheduled bond-purchase operation in response to the higher yield. The BoJ and MoF's actions continue to work against each other. Luckily for the yen,

the backdrop of lower global rates worked in its favour, and USD/JPY pushed down to around 151 this morning, ahead of the Fed.

NZ labour market data were weaker than expected, with a 0.2% fall in employment in Q3 driving a 0.3 percentage point lift in the unemployment rate to 3.9%, its highest level in more than two years. The data conveyed a picture of labour market tightness abating and this leading to weaker private sector wage inflation. The unadjusted private sector LCI wage measure rose 1.1% q/q, the weakest quarter in nearly two years. The data supported the view that further tightening in policy was unnecessary.

The weak reports drove down the NZD and rates. The NZD dipped below 0.58 and found some support at 0.5790 before recovering to just below 0.5860 overnight and edging back down to 0.5825 ahead of the Fed. NZD/AUD sustained a move down to 0.9160. In the rates market there was some paring of tightening priced into the curve and the market slightly brought forward the timing of any easing next year. This saw the 2-year swap rate fall 10bps to a seven-week low of 5.48%. The 5-year rate also fell 10bps while the 10-year rate fell 8bps. A lower and steeper

yield curve was also evident for NZGBs, albeit on a slightly lesser scale, with the 10-year rate down 6bps to 5.50%, outperforming global peers.

On the calendar the focus will be on the BoE's policy update tonight, where the market sees little chance of any policy adjustment but there will be some interest in much the door is left open for another possible rate hike over coming meetings. There are only second-tier data releases.

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Coming Up

		Period	Cons.	Prev.	NZT
AU	Trade balance (\$m)	Sep	9500	9640	13:30
AU	Home loans value (m/m%)	Sep	1.0	2.2	13:30
GE	Unemployment rate (%)	Oct	5.8	5.7	21:55
UK	Bank of England Bank Rate (%)	Nov	5.25	5.25	01:00
US	Nonfarm productivity (annlsd%)	Q3	4.3	3.5	01:30
US	Initial jobless claims (k)	28-Oct	210	210	01:30

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	0.5833	+0.2	0.5807	0.5859	CHF	0.9093	-0.1		S&P 500	4,222	+0.7	9.5	Oil (Brent)	84.82	-0.2
AUD	0.6370	+0.6	0.6330	0.6394	SEK	11.229	+0.4		Dow	33,140	+0.3	1.5	Oil (WTI)	80.61	-0.4
EUR	1.0538	-0.3	1.0517	1.0578	NOK	11.232	+0.5		Nasdaq	12,947	+0.8	18.9	Gold	1985.8	-0.7
GBP	1.2122	-0.2	1.2096	1.2165	HKD	7.824	-0.0		Stoxx 50	4,092	+0.8	12.1	HRC steel	882.0	+1.3
JPY	151.09	-0.4	150.82	151.40	CNY	7.316	-0.0		FTSE	7,342	+0.3	2.2	CRB	281.2	+0.1
CAD	1.3886	+0.1			SGD	1.371	+0.0		DAX	14,923	+0.8	11.9	Wheat Chic.	589.3	+0.7
NZD/AUD	0.9157	-0.4			IDR	15,936	+0.3		CAC 40	6,933	+0.7	9.6	Sugar	27.51	+1.6
NZD/EUR	0.5535	+0.6			THB	36.27	+0.2		Nikkei	31,602	+2.4	14.2	Cotton	79.44	-2.2
NZD/GBP	0.4812	+0.4			KRW	1,357	+0.5		Shanghai	3,023	+0.1	0.7	Coffee	159.8	-4.5
NZD/JPY	88.13	-0.2			TWD	32.48	+0.2		ASX 200	6,838	+0.8	-2.1	WM powder	3115	-1.3
NZD/CAD	0.8100	+0.3			PHP	56.82	+0.2		NZX 50	10,851	+0.0	-3.8	Australian Futures		
NZ TWI	69.53	+0.1											3 year bond	95.56	-0.01
													10 year bond	95.13	0.12
Interest Rates															
	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	4.87	4.45	USD	4.80	-0.13	15-Apr-25	5.51	-0.06		1 year	5.68	-0.05	
AUD	4.10	4.35	4.55	5.15	AUD	4.95	0.02	15-Apr-27	5.27	-0.08		2 year	5.48	-0.10	
NZD	5.50	5.64	5.48	5.36	NZD	5.50	-0.06	15-May-28	5.29	-0.07		5 year	5.21	-0.10	
EUR	4.00	3.97	3.54	3.29	GER	2.76	-0.04	15-May-31	5.45	-0.05		7 year	5.26	-0.09	
GBP	5.25	5.37	4.95	4.35	GBP	4.50	-0.01	14-Apr-33	5.50	-0.06		10 year	5.36	-0.08	
JPY	-0.02	-0.03	0.31	1.14	JPY	0.96	0.01	15-May-41	5.70	-0.05		15 year	5.46	-0.07	
CAD	5.00	5.58	5.01	4.43	CAD	3.97	-0.09	15-May-51	5.62	-0.05					

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

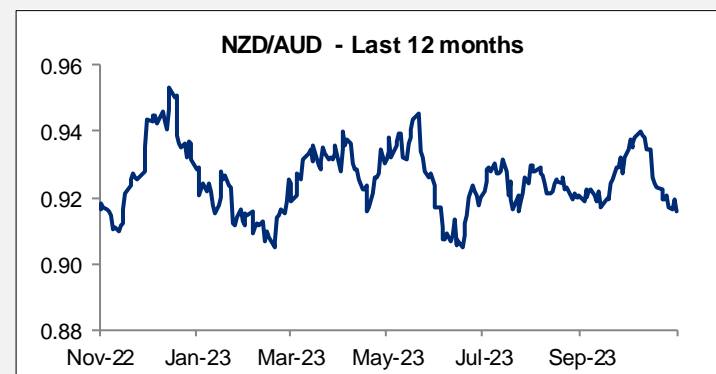
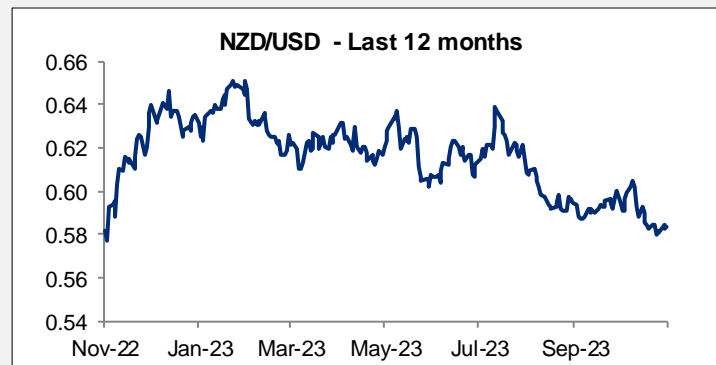
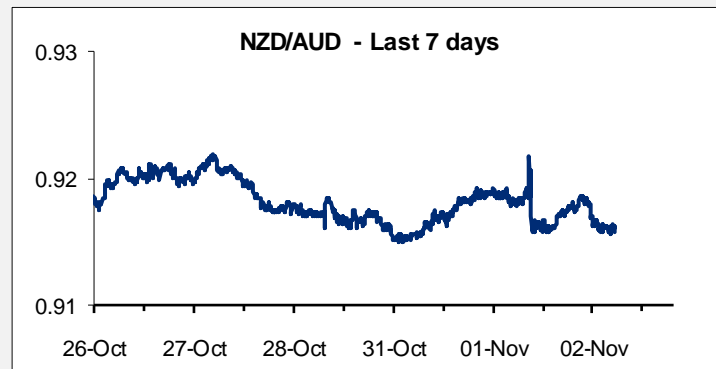
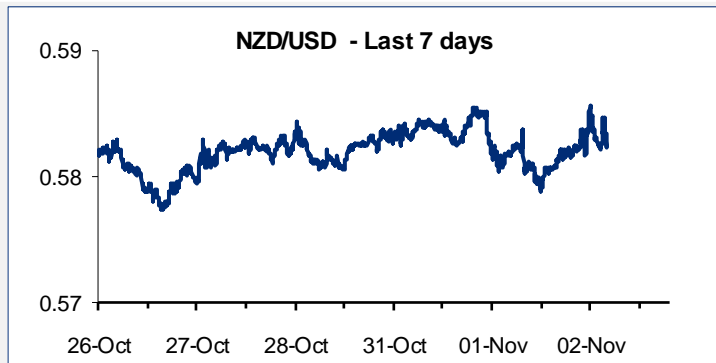
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 07:53

Source: Bloomberg

NZD exchange rates

2/11/2023	7:53 am	Prev. NY close
USD	0.5833	0.5825
GBP	0.4812	0.4793
AUD	0.9157	0.9192
EUR	0.5535	0.5508
JPY	88.13	88.35
CAD	0.8100	0.8082
CHF	0.5305	0.5303
DKK	4.1330	4.1112
FJD	1.3406	1.3450
HKD	4.5634	4.5574
INR	48.58	48.50
NOK	6.5542	6.5117
PKR	164.86	163.94
PHP	33.09	33.18
PGK	2.1676	2.1622
SEK	6.5511	6.5114
SGD	0.7996	0.7979
CNY	4.2674	4.2618
THB	21.13	20.94
TOP	1.3925	1.3989
VUV	72.07	71.80
WST	1.6206	1.6204
XPF	65.83	65.71
ZAR	10.8447	10.8629



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	0.25	0.56
3 Months	1.49	1.99
6 Months	2.36	3.41
9 Months	1.13	3.13
1 Year	-2.66	0.34

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-8.87	-8.09
3 Months	-25.74	-24.41
6 Months	-46.48	-43.40
9 Months	-63.80	-57.85
1 Year	-77.79	-68.45

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