

Research Markets Today

3 November 2023

Events Round-Up

AU: Trade balance (\$m), Sep: 6786 vs. 9500 exp.
 AU: Home loans value (m/m%), Sep: 0.6 vs 1.0 exp.
 GE: Unemployment rate (%), Oct: X.X vs. 5.8 exp.
 UK: Bank of England Bank Rate (%), Nov: 5.25 vs.5.25 exp.
 US: Nonfarm productivity (% an), Q3: 4.7 vs. 4.3 exp.
 US: Initial jobless claims (k), 28-Oct: 217 vs. 210 exp.

Good Morning

Risk sensitive assets have traded strongly in the aftermath of the FOMC as investors gain confidence that the aggressive monetary tightening cycle is coming to an end. The S&P is up more than 1.5% and is on track for the largest one-day gain since May. Equity indices in Europe and Asia also posted strong gains. Longer dated treasury yields extended lower and the dollar index fell but recovered off the lows. The market now looks ahead to key US labour market data this evening.

The Bank of England is the latest major central bank to leave rates steady. At its monetary policy meeting overnight, the base rate was left unchanged at 5.25% for the second consecutive month which was in line with expectations. The central bank expects that policy settings will need to remain at restrictive levels for an extended period of time. The monetary policy committee vote was split 6-3 with the minority favouring a further 25bp increase. Governor Bailey said that the bank is 'watching to see if more rates hikes are needed' and that it is much too early to be thinking about rate cuts.

Market pricing for the BoE base rate was little changed following the policy decision. There is about 7bp of tightening priced by February next year. The pound made modest gains against the euro in the immediate aftermath of the rates decision before retracing.

US initial jobless claims rose to 217k, a seven-week high. Continuing claims, a proxy for people receiving unemployment benefits, increased to the highest level since April. Both point to some evidence of a cooling labour market albeit from levels associated with a resilient US economy.

Japan's prime minister Kishida announced a stimulus package to reduce the impact of high living costs on

households, help firms raise wages and offer also support for domestic investment and growth. The measures total more than 17 trillion yen (US\$113 billion) and will be funded by a supplementary budget for the remainder of the fiscal year to March 2024.

A Reuters article citing government sources that directly interact with the central bank indicated the Bank of Japan Governor Ueda will continue to dismantle the ultra-easy monetary policy settings. This follows the decision earlier this week to pullback from 1% being a rigid topside limit for 10-year JGBs as part of the yield curve control framework. The Yen was little changed on the news report while 10-year JGBs yields ended the day down 3bps at 0.91%.

US treasuries were mixed leading to a sharp curve flattening adjustment. Long end yields continued to extend the move lower from after the FOMC. 10-year yields reached a low of 4.62% having traded above 4.90% earlier in the week. The front end underperformed with 2-year yields rebounding off the session lows back towards 5%. This contributed to the 2y/10y curve flattening towards -30bp, a 10bps flattening move in the session. 10-year German bund yields fell 5bp to 2.70% while the equivalent maturity Gilt ended at 4.37%, down 12bp on the day.

The dollar weakness following the FOMC extended overnight. The dollar index fell a further 0.5% at the low point before rebounding in line with the reversal higher in front-end treasury yields. The Norwegian Krone underperformed within G10. Although the Norges Bank decision to leave rates unchanged was in line with expectations, there was a more uncertain tone about the potential for a rate hike in December.

NZD/USD traded back above 0.5900 offshore making highs above 0.5915 before retracing in line with the broader US dollar moves. The NZD was largely stable on the major cross rates and NZD/AUD traded marginally higher to 0.9165.

NZ fixed interest markets had a significant move lower in yield in the local session yesterday. There was an initial re-pricing following the moves in US treasuries which then extended after the weekly tender which saw strong demand for bonds. 10-year government bond yields fell 25bps in a largely parallel curve move. Bonds

outperformed swaps with 10-year swap spreads widening towards -10bps, well off the recent lows near -20bps.

The weekly government bond tender saw decent demand with NZ\$2.0 billion in bids for the NZ\$500 million on offer. This is the largest bid volumes in this fiscal year. All 3 lines cleared below the pre-tender mid pricing. Australian bond futures have moved lower in yield since the local close yesterday setting the tone for NZGB yields on the open.

It is a busy end to the week on the economic calendar with the release of US labour market data for October as well as the services sector ISM. Headline payrolls are expected to increase 180k while consensus estimates are for the unemployment rate to be unchanged from September at 3.8%. The services ISM is expected to fall back to 53.0 from 53.6. Services sector PMI data from China is also scheduled.

stuart.ritson@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
AU	Retail Sales Ex Inflation QoQ	3Q	-0.3	-0.5	13:30
CH	Caixin China PMI Services	Oct	51	51.8	14:45
EC	Unemployment Rate	Sep	6.4	6.4	23:00
CA	Unemployment Rate	Oct	5.6	5.5	01:30
US	Change in Nonfarm Payrolls	Oct	180	336	01:30
US	Unemployment Rate	Oct	3.8	3.8	01:30
US	Average Hourly Earnings MoM	Oct	0.3	0.2	01:30
US	Average Hourly Earnings YoY	Oct	4	4.2	01:30
US	ISM Services Index	Oct	53	53.6	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	0.5891	+0.8	0.5873	0.5917	CHF	0.9048	-0.3		S&P 500	4,307	+1.7	14.6	Oil (Brent)	86.94	+2.8	
AUD	0.6427	+0.5	0.6413	0.6456	SEK	11.115	-0.6		Dow	33,752	+1.4	5.0	Oil (WTI)	82.70	+2.8	
EUR	1.0628	+0.6	1.0591	1.0668	NOK	11.162	-0.0		Nasdaq	13,273	+1.6	26.1	Gold	1993.9	+0.3	
GBP	1.2198	+0.4	1.2156	1.2225	HKD	7.826	+0.0		Stoxx 50	4,170	+1.9	15.1	HRC steel	880.0	-0.3	
JPY	150.39	-0.4	149.85	150.58	CNY	7.314	-0.0		FTSE	7,447	+1.4	4.2	CRB	279.1	-0.7	
CAD	1.3757	-0.7			SGD	1.364	-0.3		DAX	15,144	+1.5	14.2	Wheat Chic.	591.8	+0.4	
NZD/AUD	0.9166	+0.2			IDR	15,855	-0.5		CAC 40	7,061	+1.8	12.5	Sugar	27.48	+0.1	
NZD/EUR	0.5543	+0.2			THB	36.00	-0.5		Nikkei	31,950	+1.1	15.5	Cotton	79.94	+0.6	
NZD/GBP	0.4829	+0.4			KRW	1,343	-1.1		Shanghai	3,009	-0.5	0.4	Coffee	165.3	+3.4	
NZD/JPY	88.59	+0.4			TWD	32.32	-0.5		ASX 200	6,900	+0.9	0.6	WM powder	3105	-0.3	
NZD/CAD	0.8104	+0.1			PHP	56.62	-0.4		NZX 50	11,044	+1.8	-1.3	Australian Futures			
NZ TWI	69.94	+0.5											3 year bond	95.67	0.11	
													10 year bond	95.27	0.11	
Interest Rates							NZ Government Bonds				NZ Swap Yields					
Rates		Swap Yields			Benchmark 10 Yr Bonds		Last		Last		Last					
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day										
USD	5.50	5.65	4.85	4.32	USD	4.67	-0.06	15-Apr-25	5.41	-0.10	1 year	5.66	-0.05			
AUD	4.10	4.35	4.49	5.01	AUD	4.79	-0.16	15-Apr-27	5.03	-0.23	2 year	5.36	-0.12			
NZD	5.50	5.64	5.36	5.16	NZD	5.24	-0.26	15-May-28	5.05	-0.24	5 year	5.01	-0.20			
EUR	4.00	3.95	3.53	3.23	GER	2.72	-0.05	15-May-31	5.19	-0.26	7 year	5.06	-0.20			
GBP	5.25	5.38	4.90	4.24	GBP	4.38	-0.12	14-Apr-33	5.24	-0.26	10 year	5.16	-0.20			
JPY	-0.01	-0.03	0.29	1.09	JPY	0.93	-0.04	15-May-41	5.44	-0.26	15 year	5.27	-0.19			
CAD	5.00	5.58	4.99	4.32	CAD	3.86	-0.07	15-May-51	5.37	-0.26						

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

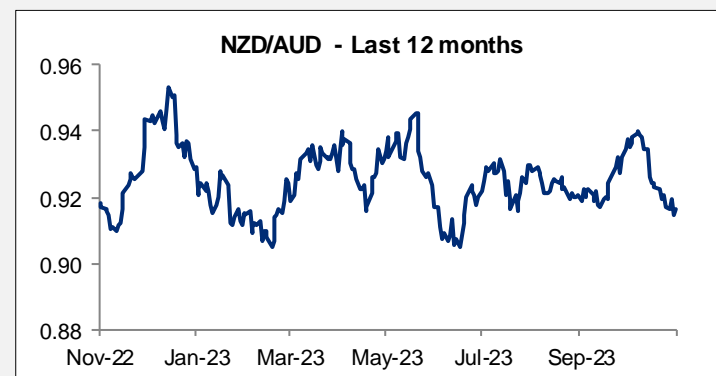
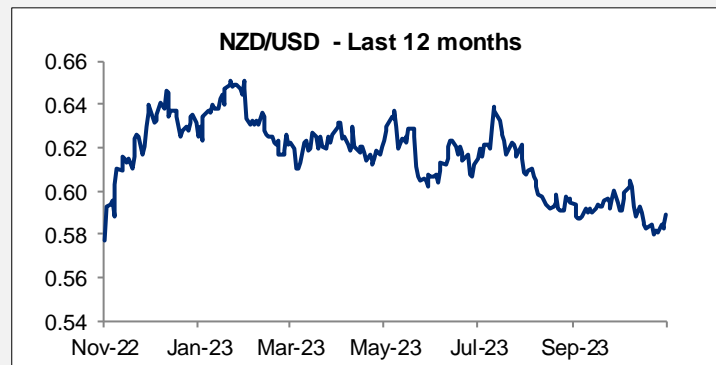
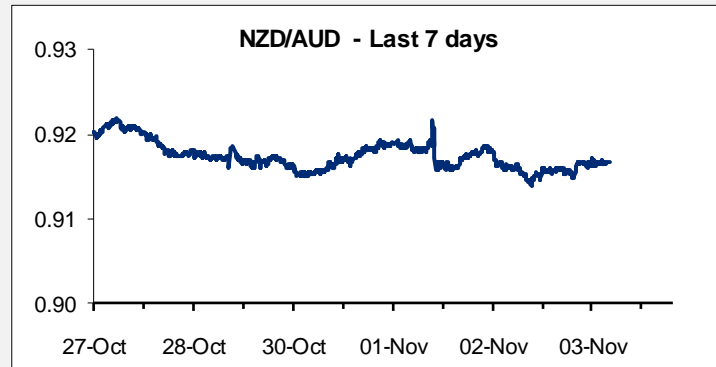
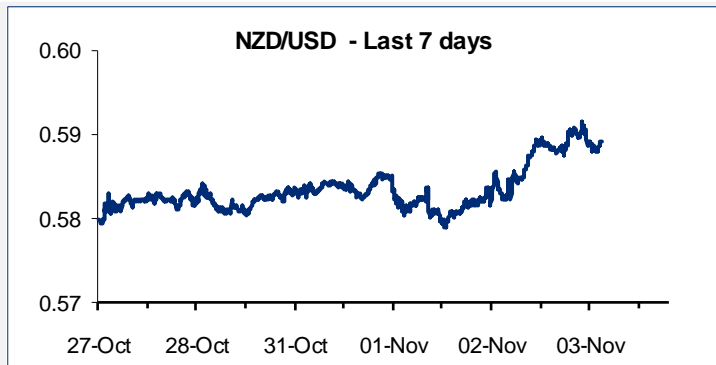
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:45

Source: Bloomberg

NZD exchange rates

3/11/2023	6:45 am	Prev. NY close
USD	0.5891	0.5846
GBP	0.4829	0.4811
AUD	0.9166	0.9144
EUR	0.5543	0.5531
JPY	88.59	88.25
CAD	0.8104	0.8100
CHF	0.5330	0.5307
DKK	4.1371	4.1282
FJD	1.3441	1.3436
HKD	4.6100	4.5737
INR	49.04	48.69
NOK	6.5753	6.5256
PKR	166.95	165.22
PHP	33.42	33.30
PGK	2.1859	2.1724
SEK	6.5481	6.5366
SGD	0.8038	0.7998
CNY	4.3089	4.2769
THB	21.16	21.18
TOP	1.3920	1.3969
VUV	72.40	72.23
WST	1.6347	1.6243
XPF	66.20	65.87
ZAR	10.8609	10.8239



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	0.24	0.57
3 Months	1.48	1.98
6 Months	2.42	3.61
9 Months	1.42	3.41
1 Year	-2.34	0.66

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-8.54	-7.89
3 Months	-25.64	-24.41
6 Months	-46.34	-43.10
9 Months	-63.24	-58.02
1 Year	-77.20	-68.77

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 4, Spark Central
42-52 Willis 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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