

Research Markets Today

4 December 2023

Events Round-Up

NZ: ANZ Consumer Confidence, Nov: 91.9 vs. 88.1 prev.
CH: Caixin China PMI Mfg, Nov: 50.7 vs. 49.6 exp.
CA: Unemployment rate, Nov: 5.8 vs 5.8 exp.
US: ISM Manufacturing, Nov: 46.7 vs. 47.8 exp.

Good Morning

The S&P extended recent gains and closed at a 20-month high while treasury yields fell following a softer than expected manufacturing ISM report and comments from Federal Reserve Chairman Powell that failed to deter investor expectations of rate cuts. Investment grade credit spreads reached the tightest level for 2023. The US dollar came under pressure following Powell's remarks.

The November ISM manufacturing index was unchanged at 46.7, which was below the consensus estimate for an increase to 47.6. The details of the report were soft with the prices, new orders, and employment subindices all remaining below 50. The tone of the commentary accompanying the release was generally downbeat and consistent with an economic slowdown.

In a speech Fed Chair Powell said that the 'Fed is prepared to tighten more if appropriate' and that it is 'premature to speculate when the Fed may ease'. However, the market focused on comments the Fed's monetary settings are 'well into restrictive territory' and the FOMC are moving 'carefully as the risks are becoming more balanced'. These remarks came just before the blackout period ahead of the mid-December FOMC.

The market discounted Powell's warning on Friday that interest rates could yet rise above their current level. Although policymakers have given no indication that rate cuts are on the horizon, recent comments that the Fed may not raise interest rates again has led the market to bring forward the start of the easing cycle.

Futures market pricing implies the Fed could cut as early as March. There is close to a 60% chance of a 25bps cut at the March FOMC, up from 20% a week ago, and nearly 130bps of cuts priced for 2024.

US treasury yields fell sharply across the curve. 2-year bonds dipped from 4.34% pre-ISM, to 4.30% and then

extended lower to end the session down 13bps at 4.19%. This is the lowest level since early September and is a significant decline from levels above 5% in mid-October. It was a largely parallel curve shift. 10-year bond yields also fell 13bps to 4.20% though the ultras underperformed with the 10y/30y curve steepening to 19bps.

In commodity markets, Brent crude prices closed at the weekly lows near US\$79 per barrel. US oil production hit a record in September with output exceeding 13m barrels a day according to data from the US Energy Information Administration. US production is increasing as OPEC+ countries reduce supply to support prices.

The US dollar moved higher initially on Friday night and remained near the highs until Powell's speech. The dollar index then reversed swiftly in line with lower treasury yields. The euro was a notable underperformer within G10 currencies as was the Canadian dollar. NZD/USD traded above 0.6200 to the highest level in 4-months and NZD/EUR is back at 0.5700.

Lower US yields have contributed to a fall in USD/JPY which traded below 147 on Friday. CFTC data reveals a large speculative Yen short position which could exacerbate any further USD/JPY move lower. A Bloomberg article noted that Japanese life insurers have reduced currency hedging by the most in more than a decade, likely related to high hedging costs. Any rebuilding of hedges would also create demand for the Yen.

NZ yields were higher in the local session on Friday reflecting moves in offshore markets. 10-year government bond yields increased 10bps to 4.99% underperforming the front end in a bear steepening curve shift. Australian bond futures are 10bps lower in yield from the local close on Friday, and combined with the move in US treasuries, point to lower NZGB yields on the open.

Q3 international trade indexes are released today and it is a quiet international economic calendar.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Terms of Trade Index QoQ	3Q	0.4	10:45	
AU	Home Loans Value MoM	Oct	1.3	0.6	13:30

Source: Bloomberg, BNZ

* 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 at NY close
 Source: Bloomberg

NZD exchange rates

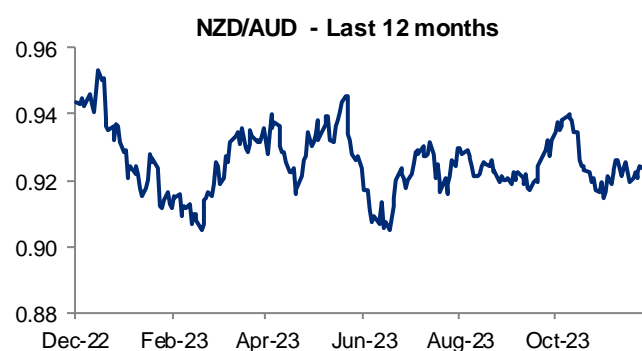
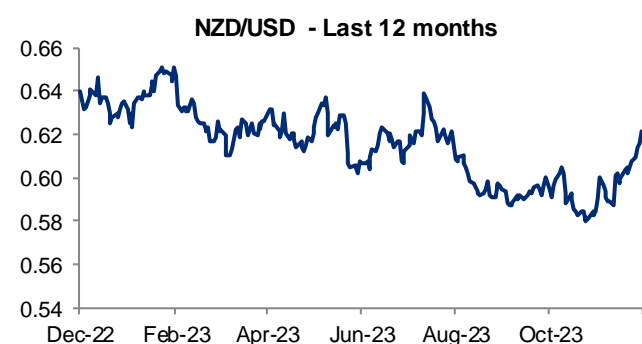
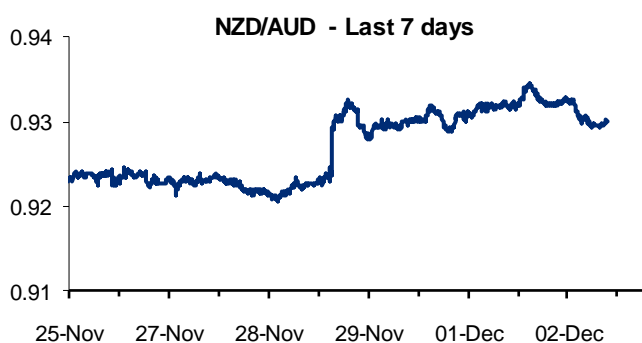
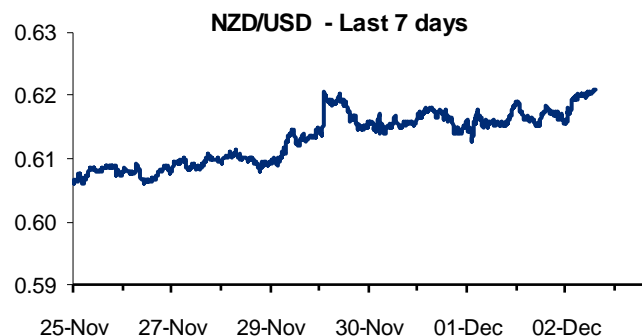
2/12/2023	NY close	Prev. NY close
USD	0.6210	0.6155
GBP	0.4886	0.4876
AUD	0.9303	0.9319
EUR	0.5706	0.5653
JPY	91.17	91.22
CAD	0.8382	0.8347
CHF	0.5397	0.5387
DKK	4.2539	4.2143
FJD	1.3969	1.3835
HKD	4.8520	4.8073
INR	51.72	51.33
NOK	6.6261	6.6547
PKR	176.95	175.49
PHP	34.41	34.16
PGK	2.3030	2.2924
SEK	6.4413	6.4626
SGD	0.8280	0.8231
CNY	4.4261	4.3916
THB	21.75	21.66
TOP	1.4500	1.4331
VUV	74.40	73.80
WST	1.6913	1.6762
XPF	67.98	67.22
ZAR	11.5811	11.6049

NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	0.65	1.13
3 Months	0.73	1.97
6 Months	-2.79	-0.03
9 Months	-10.99	-5.79
1 Year	-19.86	-15.92

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-9.18	-8.07
3 Months	-24.40	-22.11
6 Months	-47.64	-42.12
9 Months	-69.13	-59.46
1 Year	-83.61	-74.86



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