

Research Markets Today

4 October 2023

Events Round-Up

NZ: QSBO domestic trading activity, Q3: -17 vs. -15 prev.

AU: Home loans value (m/m%), Aug: 2.2 vs. 0.2 exp.

AU: Building approvals (m/m%), Aug: 7.0 vs. 2.5 exp.

AU: RBA cash rate target (%), Oct: 4.1 vs. 4.1 exp.

US: JOLTS job openings (m), Aug: 9.6 vs. 8.8 exp.

Good Morning

It's a daily case of wash, rinse, repeat, with higher rates, steeper curves, a stronger USD and weaker equity markets, with a strong US JOLTS report adding to the damage.

US job openings unexpectedly rose sharply by 690k in August to 9.6m, breaking a run of declines (having fallen for six of the previous seven months). The rebound in job openings pointed to some lingering resilience in the US labour market, not something the market wants to see, as it supports the Fed's view of higher for longer interest rates. Of some comfort though, the quits rate was unchanged at 2.3%, matching the lowest level since 2020, consistent with workers remaining less confident in their ability to find another job in the current market. Focus now turns to the key September employment report at the end of the week, where the market sees a modest softening in payrolls to +170k and the unemployment rate ticking down to 3.7% after the unexpected 0.3ppt lift in August.

The data drove a further bear steepening for the US Treasuries curve, with the 10-year rate currently trading near its peak of 4.79%, up 11bps on the day. The 2-year rate is up 4bps to 5.14%, taking the 2s10s curve to minus 35bps, breaking up through the March peak to record a fresh high for the year – a strict reading of the significant 72bps steepening from a position of significant inversion since July is that tighter monetary policy (and/or the lack for future easing) will drive the US economy into recession.

Atlanta Fed President Bostic said "I am not in a hurry to raise, but I am not in a hurry to reduce either...I want us to hold. I think that's the appropriate thing to do, for a long time". By indicating that he only sees one rate cut next year, towards the end of the year, he sits more hawkish than the median FOMC member who sees two cuts next year as appropriate.

Higher US Treasury yields have spilled over into other markets, although with smaller increases seen across Europe, with 10-year rates only up in the order of 3-6bps.

The USD is broadly stronger and there was a sharp movement in the yen after USD/JPY broke up through 150 to peak at 150.16. The yen sharply strengthened some 1.8% to 147.43, before settling near 149. Japan's MoF wouldn't comment whether it intervened, but simply calling banks to check out prices might have been enough to trigger the market volatility.

While the USD DXY index hit a fresh high for the year immediately after the JOLTS report, there has been no follow through and on the day the index only shows a small 0.2% lift. Still, the USD shows broadly based strength against all but the yen, with modest moves against EUR and GBP and larger moves against the NZD and AUD, both of which have underperformed. The NZD is down 0.9% from this time yesterday to around 0.59, extending the fall seen during NZ trading hours, with sub 0.5890 levels tested a few times overnight. The AUD traded at fresh lows for the year of 0.6287 and currently sits around 0.63.

NZD/AUD continues to push higher to about 0.9370, gaining ground after the RBA left rates unchanged, as expected, but the Bank also seemed to deliberately only make minimal changes to the Statement – a signal of "nothing to see here" after the change to a new Governor. A modest tightening bias remained. Other NZD crosses are lower, with NZD/JPY down 1.3% to below 88 and 0.7-0.8% falls against the EUR and GBP to 0.4885 and 0.5640 respectively.

Equity markets continue to be impacted by the higher rates backdrop, with the S&P500 currently down 1.3% for the day, extending recent losses and closing in on its 200-day moving average. The Euro Stoxx 600 index closed down 1.1%.

The GDT dairy auction was another strong event, as anticipated by the futures market. The price index rose by 4.4%, following gains of 4.6% and 2.7% at the prior two events, with whole milk powder prices up 4.8% and skim milk powder up 6.6%. Concern around milk supply might be entering more minds as early season NZ milk production has struggled and weather forecasters' recent declaration of an El Nino weather pattern commands caution on the outlook through spring and summer.

Higher dairy prices enhance the prospect of at least some reversal of recently lowered forecast milk prices to farmers.

NZ’s quarterly survey of business opinion conveyed a picture of the economy struggling to grow and a marked easing in capacity pressures, particularly with regards to the labour market, portending a sharp lift in the unemployment rate. Pricing intentions nudged down, remaining too high for comfort, but easing capacity constraints suggest further downside in inflation pressure to come. There was no market reaction, as is typical, but we saw the survey consistent with a view of there being no need for the RBNZ to crush the economy further with higher rates.

Global forces drove domestic rates up to fresh cycle highs, although in the swap market in particular, rates were notably down from peaks earlier in the session as the market was pushed around ahead of tomorrow’s RBNZ meeting. NZGBs closed the day up 3-6bps, with the 10-year rate closing the day at 5.43%. Swaps were up 2-4bps, the 2-year rate closing at 5.79% after being marked as high as 5.85% at one point.

The domestic focus today will be on the RBNZ’s Monetary Policy Review. While the market has priced a near-20%

chance of another 25bps hike, the reality is that there is almost literally no chance of a hike ahead of the election and no analysts surveyed expect a hike. We expect a similar tone on policy to be adopted from previously – rates on hold at 5.5% and the Bank “confident” that rates this high can bring inflation back to within the target range. We expect little sustained NZD reaction, while short end rates can nudge lower on a no-change decision.

The key release tonight will be the US ISM services index, where the consensus sees a 1pt drop to 53.5 after the surprising increase in August. ECB President Lagarde will also be speaking.

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Coming Up

| | | Period | Cons. | Prev. | NZT |
|----|-----------------------------|--------|-------|-------|-------|
| NZ | RBNZ official cash rate (%) | Oct | 5.5 | 5.5 | 14:00 |
| EC | ECB's Lagarde speaks | | | | 21:00 |
| US | ADP employment change (k) | Sep | 150 | 177 | 01:15 |
| US | ISM services index | Sep | 53.5 | 54.5 | 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 | 0.5902 | -0.8 | 0.5888 | 0.5920 | CHF | 0.9209 | +0.3 | S&P 500 | 4,230 | -1.4 | 15.0 | Oil (Brent) | 91.08 | +0.4 | |
| AUD | 0.6300 | -1.0 | 0.6287 | 0.6332 | SEK | 11.110 | +0.5 | Dow | 32,980 | -1.4 | 11.8 | Oil (WTI) | 89.39 | +0.6 | |
| EUR | 1.0470 | -0.1 | 1.0448 | 1.0493 | NOK | 10.975 | +1.1 | Nasdaq | 13,052 | -1.9 | 20.7 | Gold | 1824.6 | +0.0 | |
| GBP | 1.2083 | -0.0 | 1.2052 | 1.2102 | HKD | 7.832 | -0.0 | Stoxx 50 | 4,096 | -1.0 | 22.5 | HRC steel | 686.0 | -1.3 | |
| JPY | 149.01 | -0.6 | 147.43 | 150.16 | CNY | 7.298 | -0.2 | FTSE | 7,470 | -0.5 | 8.1 | CRB | 282.5 | -0.7 | |
| CAD | 1.3710 | +0.2 | | | SGD | 1.374 | +0.0 | DAX | 15,085 | -1.1 | 23.6 | Wheat Chic. | 597.8 | +0.3 | |
| NZD/AUD | 0.9368 | +0.3 | | | IDR | 15,580 | +0.3 | CAC 40 | 6,997 | -1.0 | 20.8 | Sugar | 25.67 | -2.8 | |
| NZD/EUR | 0.5637 | -0.7 | | | THB | 37.11 | +0.4 | Nikkei | 31,238 | -1.6 | 15.7 | Cotton | 87.46 | +0.7 | |
| NZD/GBP | 0.4885 | -0.7 | | | KRW | 1,361 | +0.7 | Shanghai | 3,110 | +0.1 | 2.3 | Coffee | 148.8 | -0.2 | |
| NZD/JPY | 87.95 | -1.3 | | | TWD | 32.34 | +0.4 | ASX 200 | 6,943 | -1.3 | 3.6 | WM powder | 3000 | -0.7 | |
| NZD/CAD | 0.8092 | -0.5 | | | PHP | 56.80 | +0.0 | NZX 50 | 11,236 | -0.1 | 1.3 | Australian Futures | | | |
| NZ TWI | 70.42 | -0.5 | | | | | | | | | | 3 year bond | 95.9 | -0.01 | |
| | | | | | | | | | | | | 10 year bond | 95.35 | -0.04 | |
| Interest Rates | | | | | | | | NZ Government Bonds | | | NZ Swap Yields | | | | |
| | Rates | | | | Benchmark 10 Yr Bonds | | | Last | | | Last | | | | |
| | Cash | 3Mth | 2 Yr | 10 Yr | Last | Net Day | | | | | | | | | |
| USD | 5.50 | 5.65 | 5.05 | 4.48 | USD | 4.79 | 0.11 | 15-Apr-25 | 5.81 | 0.03 | 1 year | 5.96 | 0.00 | | |
| AUD | 4.10 | 4.16 | 4.34 | 4.89 | AUD | 4.54 | 0.05 | 15-Apr-27 | 5.47 | 0.04 | 2 year | 5.79 | 0.02 | | |
| NZD | 5.50 | 5.72 | 5.79 | 5.27 | NZD | 5.43 | 0.06 | 15-May-28 | 5.37 | 0.04 | 5 year | 5.31 | 0.04 | | |
| EUR | 4.00 | 3.95 | 3.83 | 3.52 | GER | 2.97 | 0.05 | 15-May-31 | 5.40 | 0.05 | 7 year | 5.26 | 0.04 | | |
| GBP | 5.25 | 5.41 | 5.21 | 4.48 | GBP | 4.60 | 0.03 | 14-Apr-33 | 5.43 | 0.06 | 10 year | 5.27 | 0.04 | | |
| JPY | -0.03 | -0.03 | 0.21 | 0.98 | JPY | 0.77 | -0.01 | 15-May-41 | 5.64 | 0.05 | 15 year | 5.33 | 0.04 | | |
| CAD | 5.00 | 5.51 | 5.46 | 4.73 | CAD | 4.27 | 0.24 | 15-May-51 | 5.63 | 0.06 | | | | | |

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

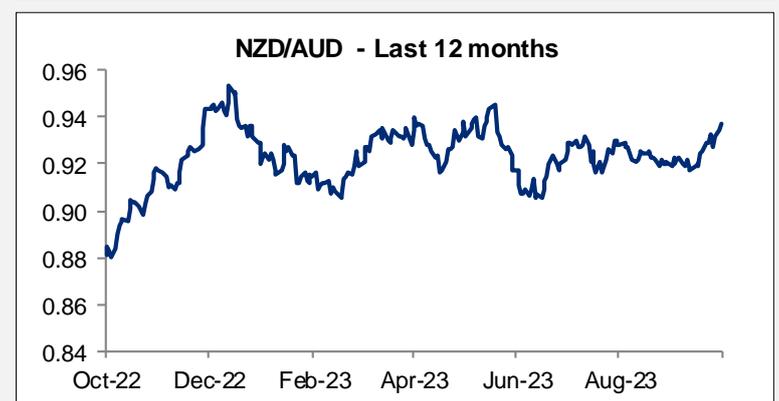
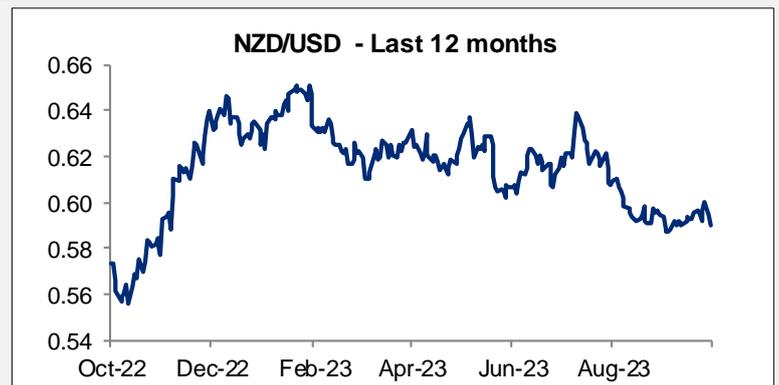
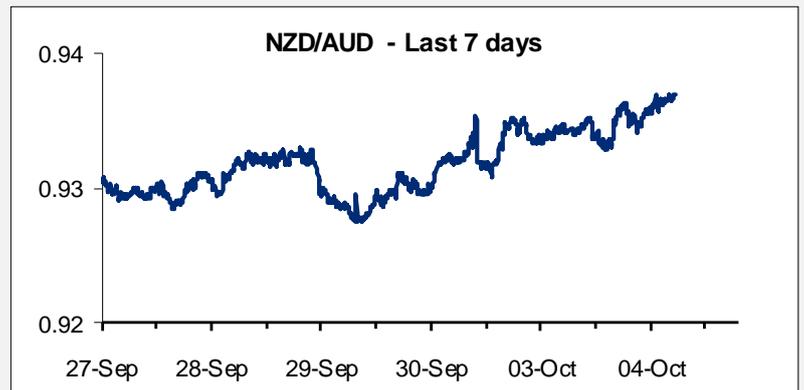
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 07:00

Source: Bloomberg

NZD exchange rates

| 3/10/2023 | 7:01 am | Prev. NY close |
|-----------|---------|----------------|
| USD | 0.5902 | 0.5947 |
| GBP | 0.4885 | 0.4920 |
| AUD | 0.9368 | 0.9346 |
| EUR | 0.5637 | 0.5676 |
| JPY | 87.95 | 89.12 |
| CAD | 0.8092 | 0.8133 |
| CHF | 0.5435 | 0.5461 |
| DKK | 4.2039 | 4.2329 |
| FJD | 1.3490 | 1.3599 |
| HKD | 4.6224 | 4.6579 |
| INR | 49.11 | 49.38 |
| NOK | 6.4774 | 6.4576 |
| PKR | 168.64 | 170.53 |
| PHP | 33.52 | 33.77 |
| PGK | 2.1746 | 2.1704 |
| SEK | 6.5570 | 6.5745 |
| SGD | 0.8107 | 0.8165 |
| CNY | 4.3073 | 4.3483 |
| THB | 21.86 | 21.97 |
| TOP | 1.3777 | 1.3872 |
| VUV | 72.32 | 72.42 |
| WST | 1.6282 | 1.6383 |
| XPF | 67.01 | 67.50 |
| ZAR | 11.3994 | 11.4281 |



NZD/USD Forward Points

| | BNZ buys NZD | BNZ sells NZD |
|----------|--------------|---------------|
| 1 Month | 0.04 | 0.45 |
| 3 Months | 0.30 | 0.82 |
| 6 Months | -0.53 | 0.65 |
| 9 Months | -6.23 | -1.54 |
| 1 Year | -12.58 | -8.67 |

NZD/AUD Forward points

| | BNZ buys NZD | BNZ Sells NZD |
|----------|--------------|---------------|
| 1 Month | -11.06 | -10.13 |
| 3 Months | -32.03 | -30.65 |
| 6 Months | -61.51 | -58.11 |
| 9 Months | -93.41 | -83.18 |
| 1 Year | -122.99 | -111.98 |

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