

Research Markets Today

6 December 2023

Events Round-Up

NZ: Vol. of building work (q/q%), Q3: -2.4 vs. -0.5 exp.

JN: Tokyo CPI (y/y%), Nov: 2.6 vs. 3.0 exp.

JN: Tokyo CPI ex-fr. fd, energy (y/y%), Nov: 3.6 vs. 3.7 exp.

AU: Current a/c balance (\$b), Q3: -0.2 vs. 3.2 exp.

CH: Caixin PMI services, Nov: 51.5 vs. 50.5 exp.

AU: RBA cash rate target (%), Dec: 4.35 vs. 4.35 exp.

US: JOLTS job openings (m), Oct: 8.7 vs. 9.3 exp.

US: ISM services index, Nov: 52.7 vs. 52.3 exp.

Good Morning

Global rates have fallen to fresh lows, following a series of bond market friendly developments. The US 10-year rate is currently down 8bps to 4.17%, with even larger moves in European and Australian 10-year rates. US equities are flat while the USD is broadly stronger, with the NZD nudging down to 0.6140.

News since the NZ close has driven a notable extension of the recent bond market rally, with the RBA not providing any hawkish nuggets in its policy update, some dovish comments from the ECB's Schnabel, and a market-friendly US JOLTS labour market report.

In chronological order, as widely anticipated the RBA left its cash rate on hold at 4.35%, while it repeated the final paragraph of the previous statement "whether further tightening of monetary policy is required...will depend upon the data and the evolving assessment of risks". There was nothing in the statement to support the hawks that another rate hike is on the cards and the market viewed that as a dovish development, sending Australian rates lower and AUD lower.

Early evening NZ time, the ECB's Schnabel, previously considered to be on the hawkish side of the spectrum and one of the more respected GC members by the market, offered some dovish comments in a 1-December Reuters interview published on the ECB's website. She noted that underlying CPI inflation was "falling more quickly than we had anticipated" and "this is quite remarkable". On policy she noted that another rate hike was "rather unlikely" but wouldn't be drawn on when rate cuts could begin, commenting "we should be careful in making statements

about something that is going to happen in six months time".

The market was pleasantly surprised by Schnabel's revelations and sent European yields and EUR lower. The market now prices an 85% chance of a 25bps rate cut coming as soon as March and nearly 150bps of cuts through next year. Germany's 10-year rate is down 11bps to 2.24% and there was spillover to other markets, with the UK 10-year rate down 17bps and sending US rates down as well, ahead of the US data releases. Lower yields supported European equities, with the Euro Stoxx 600 index up 0.4% and Germany's DAX index up 0.8% to a record high.

The US JOLTS report showed that job openings fell 617k to 8.7m in October, much weaker than the market anticipated, to its lowest level in 2½ years and continuing its weakening trend. The ratio of openings to unemployed fell to 1.3, well down from the peak of 2 and edging further towards the 1 level which Fed Chair Powell has previously suggested he would be comfortable with. The quits rate was steady at 2.3. While the non-farm payrolls report at the end of the week is much more important, the market was encouraged by the JOLTS report as confirming easier labour market pressures and supporting a view that monetary policy can ease next year.

The US ISM services index increased slightly more than the market expected to 52.7 in November, consistent with modest growth in services sector activity, while the prices paid index nudged down to 58.3.

The downdraft from lower European rates has been the bigger force on US rates, with a small extension of the rally following the JOLTS report. The US 10-year rate fell to a low of 4.16% and is currently 4.17%, down 8bps for the day. Yield curve flattening has been the order of the day, with the 2-year rate down 5bps.

In currency markets, the USD is broadly stronger, with EUR the weakest of the majors overnight, sustaining a move below 1.08, while GBP has gone sub-1.26. The AUD has trended down since the RBA statement and is near its lows for the day at 0.6550. The NZD has pushed down to 0.6140, while NZD/AUD is modestly higher at 0.9360. On a 24-hours basis, the NZD is modestly weaker against the other major currencies. The yen has managed to hold its

ground against a stronger USD, supported by the lower rates backdrop, and NZD/JPY is closing in on 90.

In other news, the GDT dairy auction price index rose 1.6%, broadly in line with expectations, with price rises across all products on offer, including a 2.1% lift in whole milk powder and a 1.2% lift in skim milk powder.

In the domestic rates market, there was some mild flattening in the NZGB curve, with the 2-year rate flat and the 10-year rate down 3bps to 4.91%. The swaps curve flattened more, with 2-year swap up 3bps to 5.20% and the 10-year rate down 2bps to 4.76%. The market close pre-dated the RBA statement, and adding in overnight developments, the bias for rates will be very much to the downside from the open, with the Australian 3 and 10-year futures down 16-17bps in yield terms.

In the day ahead, Australian GDP data are expected to show modest growth in Q3. US ADP private payrolls, released tonight, have been a poor indicator of non-farm

payrolls and therefore don't deserve anything more than a passing glance. The Bank of Canada is widely anticipated to keep policy on hold. With the market anticipating the next move to be an easing, with a chance of lower rates from early next year, the market will be looking for any dovish snippets, even if policy makers are unlikely to want to give a nod to such a move yet.

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Coming Up

		Period	Cons.	Prev.	NZT
AU	GDP (q/q%)	Q3	0.4	0.4	13:30
GE	Factory orders (m/m%)	Oct	0.2	0.2	20:00
US	ADP employment change (k)	Nov	125	113	02:15
US	Trade balance (\$b)	Oct	-64.2	-61.5	02:30
CA	Bank of Canada policy rate (%)	Dec	5.0	5.0	04:00

Source: Bloomberg, BNZ

								Equities				Commodities**		
Indicative overnight ranges (*)					Other FX			Major Indices				Price		
	Last	% Day	Low	High		Last	% Day		Last	% Day	% Year		Last	Net Day
NZD	0.6134	-0.5	0.6126	0.6162	CHF	0.8752	+0.3	S&P 500	4,565	-0.1	14.2	Oil (Brent)	77.89	-0.2
AUD	0.6554	-1.0	0.6544	0.6585	SEK	10.477	+0.4	Dow	36,060	-0.4	6.2	Oil (WTI)	73.03	-0.0
EUR	1.0792	-0.4	1.0782	1.0847	NOK	10.913	+0.6	Nasdaq	14,183	-0.0	26.2	Gold	2015.0	-0.4
GBP	1.2595	-0.3	1.2583	1.2651	HKD	7.820	+0.0	Stoxx 50	4,453	+0.9	12.5	HRC steel	1028.0	-1.1
JPY	147.17	-0.0	146.57	147.34	CNY	7.147	+0.0	FTSE	7,490	-0.3	-1.0	CRB	267.6	-1.2
CAD	1.3580	+0.3			SGD	1.341	+0.3	DAX	16,533	+0.8	14.4	Wheat Chic.	627.5	+1.1
NZD/AUD	0.9359	+0.5			IDR	15,505	+0.3	CAC 40	7,387	+0.7	10.3	Sugar	24.96	-3.3
NZD/EUR	0.5684	-0.1			THB	35.31	+0.2	Nikkei	32,776	-1.4	17.5	Cotton	77.68	-0.9
NZD/GBP	0.4870	-0.2			KRW	1,311	+0.6	Shanghai	2,972	-1.7	-7.5	Coffee	183.3	+2.1
NZD/JPY	90.27	-0.5			TWD	31.49	+0.4	ASX 200	7,062	-0.9	-3.2	WM powder	3130	-0.2
NZD/CAD	0.8330	-0.2			PHP	55.31	-0.0	NZX 50	11,357	-0.1	-2.4	Australian Futures		
NZ TWI	71.55	-0.2										3 year bond	96	0.04
Interest Rates												10 year bond 95.70 0.17		
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	5.62	4.39	3.79	USD	4.17	-0.08	15-Apr-25	5.23	-0.00		1 year	5.60	0.02
AUD	4.35	4.38	4.18	4.58	AUD	4.41	-0.03	15-Apr-27	4.80	-0.01		2 year	5.20	0.03
NZD	5.50	5.63	5.20	4.76	NZD	4.91	-0.03	15-May-28	4.77	-0.02		5 year	4.70	-0.01
EUR	4.00	3.96	3.08	2.73	GER	2.25	-0.11	15-May-31	4.85	-0.03		7 year	4.69	-0.02
GBP	5.25	5.35	4.62	3.85	GBP	4.03	-0.17	14-Apr-33	4.91	-0.03		10 year	4.76	-0.02
JPY	-0.01	-0.03	0.19	0.87	JPY	0.67	-0.03	15-May-41	5.16	-0.03		15 year	4.87	-0.03
CAD	5.00	5.46	4.45	3.72	CAD	3.35	-0.09	15-May-51	5.11	-0.03				

* 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 06:44

Source: Bloomberg

NZD exchange rates

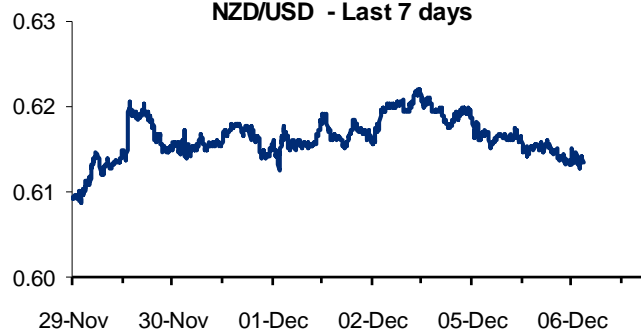
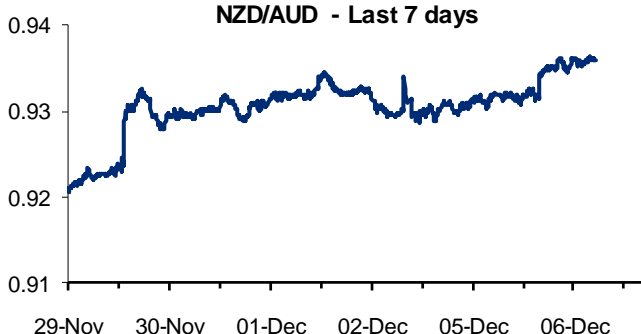
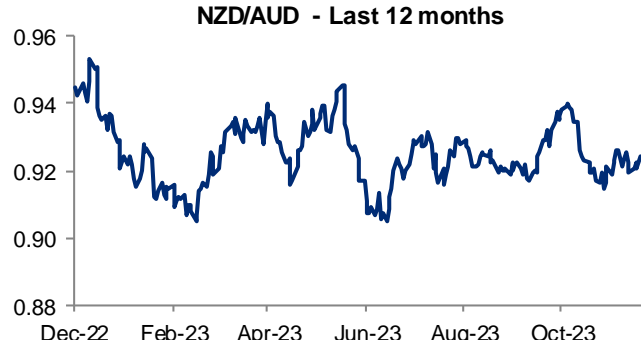
6/12/2023	6:45 am	Prev. NY close
USD	0.6134	0.6165
GBP	0.4870	0.4880
AUD	0.9359	0.9313
EUR	0.5684	0.5689
JPY	90.27	90.75
CAD	0.8330	0.8346
CHF	0.5368	0.5381
DKK	4.2376	4.2416
FJD	1.3784	1.3851
HKD	4.7965	4.8185
INR	51.15	51.39
NOK	6.6937	6.6871
PKR	174.44	175.47
PHP	33.93	34.11
PGK	2.2845	2.2969
SEK	6.4267	6.4335
SGD	0.8226	0.8247
CNY	4.3837	4.4039
THB	21.43	21.59
TOP	1.4272	1.4387
VUV	73.71	73.97
WST	1.6658	1.6725
XPF	67.29	67.70
ZAR	11.6299	11.5909

NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	0.79	1.16
3 Months	1.19	1.69
6 Months	-1.81	-0.61
9 Months	-8.61	-6.60
1 Year	-18.17	-15.17

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-9.79	-8.94
3 Months	-24.90	-23.70
6 Months	-49.46	-46.40
9 Months	-71.43	-66.11
1 Year	-90.23	-82.01

NZD/USD - Last 7 days**NZD/AUD - Last 7 days****NZD/USD - Last 12 months****NZD/AUD - Last 12 months**

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