

# Research Markets Today

6 September 2023

## Events Round-Up

AU: Current a/c balance (\$b), Q2: 7.7 vs. 8.0 exp.

CH: Caixin PMI services, Aug: 51.8 vs. 54.1 prev.

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

## Good Morning

The USD found support after China's Caixin services PMI fell yesterday, with the NZD, AUD and JPY all weakening to fresh lows for the year. Oil prices are up to a fresh high for the year, not helping the bond market, with US Treasury yields up 8-9bps across the curve.

The mood in markets shifted a gear yesterday after China's Caixin services PMI fell 2.3pts to 51.8, its lowest level this year. It was a bigger fall than showed by the official PMI series released last week and was a reminder that China's economic momentum is slowing, with lower interest rates and other support measures to date not doing enough.

The yuan weakened, and this seemed to set off a broad-based lift in the USD, with Asian-Pacific currencies once again at the vanguard. While USD/CNH is up "only" 0.4% to 7.3025, shy of last month's peak just under 7.35, the NZD, AUD and JPY all fell to fresh lows for the year. The NZD traded down to 0.5859 overnight and still sits below 0.59, the AUD traded down to as low as 0.6358, and USD/JPY is making new highs around 147.80 as we go to print. European currencies are weaker as well, with EUR down to 1.0725, making a decisive break below its 200-day moving average and GBP down to 1.2570. The USD DXY index is up to its highest level since March.

Some media have cited European PMI data as a factor in dollar strength, but the Euro area composite PMI was only revised down 0.3 from the early estimate to 46.7, even if at its lowest level in three-years, while the UK measure was revised 0.7 higher to 48.6.

Bond markets have also seen some price action, with US Treasury yields up around 8-9bps on the day in a broad parallel shift across the curve, the 10-year rate back up to 4.27%. Not helping the mood is a further grind up in oil prices. Oil prices are up around 1%, seeing Brent crude up through the USD90 per barrel mark for the first time since November., with Saudi Arabia's 1m per day production cut extended until December and Russia will extend its

300,000 barrels a day reduction in exports. Higher oil prices will feed into higher headline inflation over coming months, the last thing central banks want to see right now in their battle against high inflation expectations becoming ingrained.

European yields are also higher, although not to the extent seen in the US, so adding to the backdrop of USD support. Germany's 10-year rate is up 3bps, while the UK 10-year rate is up 6bps.

Higher yields have been a brake on equity market performance but we wouldn't go so far to say that risk appetite is weaker, given that the VIX index has barely moved and falls in equities are small. The S&P500 is currently down only 0.2% and the Euro Stoxx 600 index fell by just 0.2%.

Respected Fed Board member Waller told CNBC said that he favoured a pause in the hiking cycle in September "there is nothing that is saying we need to do anything imminent anytime soon...we can just sit there and wait for the data". He declined to say whether he would support another increase this year, saying that will depend on incoming data. The consensus is fully on board with this view, with just 2bps of hikes priced for September and another hike by November given about a 50/50 chance.

Yesterday, the RBA kept its policy rate on hold and maintained a bias to tighten further, depending on the data. Added to the Statement was a line about the uncertainty around the outlook for Chinese economy, which some saw as increasing the hurdle for another hike, although market reaction was muted, with the announcement well in tune with the strong market consensus.

The domestic rates market traded heavy again, with a curve-steepening bias. NZGBs rose 4-7bps across the curve, seeing the 10-year rate close at 4.98%. There is ample supply this week, with an imminent LGFA syndication of 2025 and 2030 bonds adding to the usual \$500m of government bonds to be tendered tomorrow. The Australian 10-year bond future is up 6bps in yield terms since the NZD close, adding to further likely upside to NZ rates today. The 2-year swap rate rose by just 1bp to 5.49% while the 10-year rate rose 5bps to 4.82%.

The overnight GDT dairy auction showed a rare increase in pricing, with the price index up 2.7%, supported by a 5.3% lift in whole milk powder, while skim milk powder fell 1.6%. The index is still down 26% over the past year, but there will be some hope that the worst is over in terms of price falls.

In the day ahead Australian Q2 GDP is expected to show a modest 0.4% q/q increase. The key data release tonight is the US ISM services index, expected to show only a small fall, but the prices paid, new orders and employment indices will also be of interest. There is a strong consensus for the Bank of Canada to keep policy on hold and market pricing is consistent with that.

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### Coming Up

		Period	Cons.	Prev.	NZT
NZ	Vol. of building work (q/q%)	Q2	0.2	0.6	10:45
AU	GDP (q/q%)	Q2	0.4	0.2	13:30
GE	Factory orders (m/m%)	Jul	-4.3	7.0	18:00
US	Trade balance (\$b)	Jul	-68.0	-65.5	00:30
CA	Bank of Canada policy rate (%)	Sep	5.0	5.0	02:00
US	ISM services index	Aug	52.5	52.7	02:00

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	0.5881	-1.0	0.5859	0.5890	CHF	0.8896	+0.6	S&P 500	4,507	-0.2	14.9	Oil (Brent)	89.88	+1.0
AUD	0.6382	-1.2	0.6358	0.6387	SEK	11.103	+1.0	Dow	34,740	-0.3	10.9	Oil (WTI)	86.56	+1.2
EUR	1.0723	-0.7	1.0707	1.0772	NOK	10.723	+0.9	Nasdaq	14,049	+0.1	20.8	Gold	1934.0	-0.7
GBP	1.2566	-0.5	1.2528	1.2596	HKD	7.841	+0.1	Stoxx 50	4,269	-0.3	22.3	HRC steel	711.0	-1.3
JPY	147.77	+0.9	146.84	147.80	CNY	7.303	+0.4	FTSE	7,438	-0.2	2.1	CRB	284.4	+0.9
CAD	1.3635	+0.3			SGD	1.361	+0.5	DAX	15,772	-0.3	23.6	Wheat Chic.	600.8	+0.9
NZD/AUD	0.9215	+0.3			IDR	15,270	+0.2	CAC 40	7,255	-0.3	19.1	Sugar	26.65	+3.3
NZD/EUR	0.5484	-0.3			THB	35.49	+0.7	Nikkei	33,037	+0.3	19.6	Cotton	88.00	-1.4
NZD/GBP	0.4680	-0.5			KRW	1,331	+0.9	Shanghai	3,154	-0.7	-2.7	Coffee	153.5	+1.1
NZD/JPY	86.90	-0.1			TWD	31.93	+0.1	ASX 200	7,314	-0.1	7.1	WM powder	2570	+1.0
NZD/CAD	0.8019	-0.7			PHP	56.88	+0.4	NZX 50	11,437	-0.7	-1.4	<b>Australian Futures</b>		
NZ TWI	69.46	-0.4										3 year bond	96.2	-0.01
												10 year bond	95.82	-0.06
<b>Interest Rates</b>								<b>NZ Government Bonds</b>			<b>NZ Swap Yields</b>			
	Rates		Swap Yields		Benchmark 10 Yr Bonds									
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day	Last			Last				
USD	5.50	5.66	4.87	3.97	USD	4.27	0.09	15-Apr-25	5.51	0.04	1 year	5.73	0.01	
AUD	4.10	4.13	4.15	4.51	AUD	4.14	0.05	15-Apr-27	5.08	0.05	2 year	5.49	0.01	
NZD	5.50	5.66	5.49	4.82	NZD	4.98	0.07	15-May-28	4.98	0.06	5 year	4.92	0.03	
EUR	3.75	3.80	3.66	3.17	GER	2.61	0.03	15-May-31	4.97	0.06	7 year	4.84	0.04	
GBP	5.25	5.58	5.56	4.45	GBP	4.53	0.06	14-Apr-33	4.98	0.07	10 year	4.82	0.05	
JPY	-0.07	-0.03	0.13	0.83	JPY	0.66	0.01	15-May-41	5.17	0.07	15 year	4.89	0.06	
CAD	5.00	5.50	5.20	4.19	CAD	3.69	0.13	15-May-51	5.16	0.07				

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

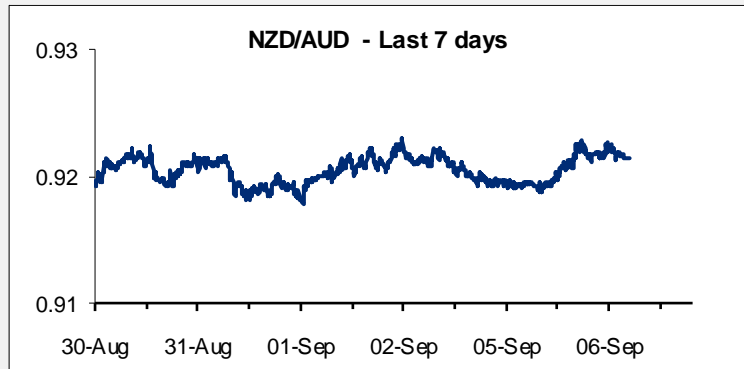
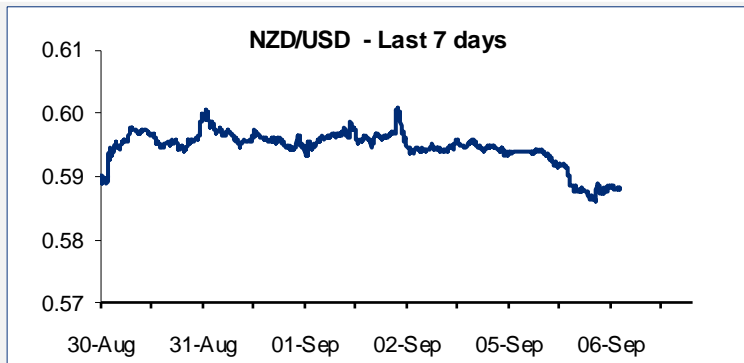
\*\* All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:48

Source: Bloomberg

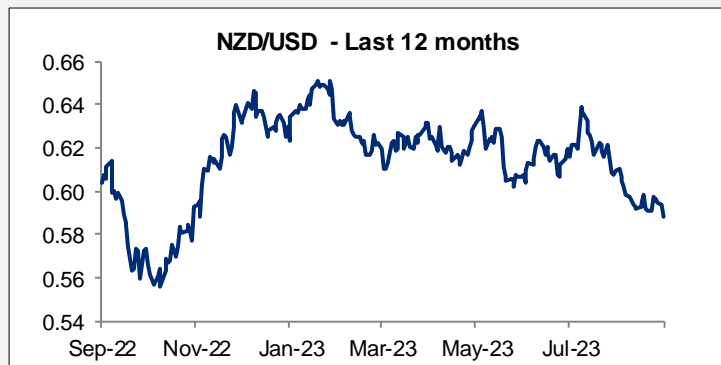
**NZD exchange rates**

6/09/2023	6:48 am	Prev. NY close
USD	0.5881	0.5939
GBP	0.4680	0.4704
AUD	0.9215	0.9192
EUR	0.5484	0.5501
JPY	86.90	86.99
CAD	0.8019	0.8072
CHF	0.5232	0.5254
DKK	4.0884	4.1000
FJD	1.3393	1.3544
HKD	4.6111	4.6529
INR	48.83	49.14
NOK	6.3061	6.3118
PKR	180.58	181.42
PHP	33.42	33.64
PGK	2.1254	2.1440
SEK	6.5299	6.5308
SGD	0.8006	0.8047
CNY	4.2951	4.3204
THB	20.86	20.92
TOP	1.3996	1.3831
VUV	71.77	72.55
WST	1.6288	1.6348
XPF	65.25	65.21
ZAR	11.2843	11.3305



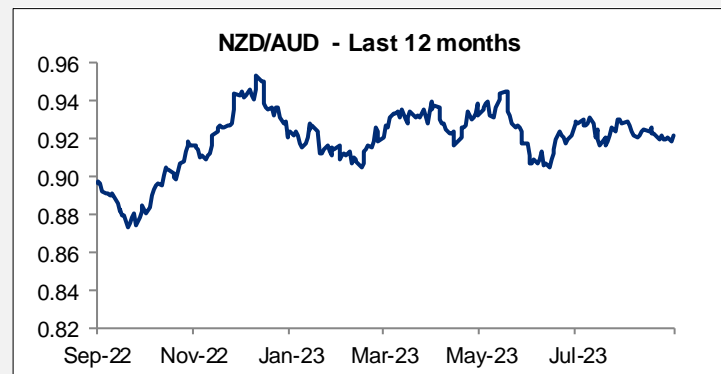
**NZD/USD Forward Points**

	BNZ buys NZD	BNZ sells NZD
1 Month	0.00	0.30
3 Months	0.45	1.05
6 Months	0.63	1.82
9 Months	-0.73	1.28
1 Year	-4.00	-1.00



**NZD/AUD Forward points**

	BNZ buys NZD	BNZ Sells NZD
1 Month	-11.24	-10.51
3 Months	-29.61	-28.11
6 Months	-59.69	-56.38
9 Months	-87.17	-81.91
1 Year	-111.25	-103.64



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