

Research Markets Today

7 December 2023

Events Round-Up

AU: GDP (q/q%), Q3: 0.2 vs. 0.5 exp.

GE: Factory orders (m/m%), Oct: -3.7 vs. 0.2 exp.

US: ADP employment change (k), Nov: 103 vs. 130 exp.

US: Trade balance (\$b), Oct: -64.3 vs. -64.2 exp.

CA: Bank of Canada policy rate (%), Dec: 5.0 vs. 5.0 exp.

Good Morning

Another day, another extension of the global bond market rally, this time driven by weaker oil prices and a soft US ADP employment report being a supporting factor. European 10-year rates are down to their lowest levels since May, while the US 10-year rate has traded as low as 4.1%. Currency moves have been small, with the NZD hovering around 0.6150.

Oil prices continue their poor run and are down more than 3% to a fresh five-month low, seeing Brent crude slip below USD75 per barrel and WTI going sub USD70. Brent crude was trading over USD95 at the end of September, and the cumulative fall since then is now about 24%. Overnight, not even a US report showing a 4.63m barrel fall in crude stockpiles prevented the fall in prices. Traders remain sceptical that OPEC+ members will stick to the agreed curb in production and see a supply glut developing early next year.

Falling oil prices have helped extend the global bond market rally, with lower rates all round. UK and German 10-year rates have fallen to their lowest levels since May, down 8bps to 3.94% and 5bps to 2.20% respectively. With short rates already encompassing a healthy dose of monetary policy easing next year, lower prices have had more impact on the long end of the market than the short end, the latter showing little net movement.

US Treasuries show the same curve flattening profile, with the 2-year rate currently up 2bps for the day to 4.6% and the 10-year rate is down 5bps to 4.11%, after trading as low as 4.10%. Supporting the case for lower rates, US ADP private payrolls rose just 103k in November, below consensus of 130k, adding to the picture of easier labour market pressures. Furthermore, the data showed slowing wage inflation, with workers who stayed in jobs seeing a median 5.6% pay rise and those who changed jobs seeing an 8.3% gain, both figures slowing to their weakest pace

since 2021. The data aren't a reliable indicator of the more important non-farm payrolls report, but that didn't stop the market taking yields lower after the release, although that coincided with the downdraft in oil prices. In Friday's report, non-farm payrolls are expected to lift 186k, with the unemployment rate steady at 3.9%.

German factory orders unexpectedly plunged 3.7% m/m in October, driven by weaker foreign orders (down 7.6%) compared to rising domestic orders (up 2.4%). The data are volatile, but play to a view of a sluggish German economy and easier ECB policy next year.

The Bank of Canada held its policy rate at 5.0%, its third consecutive pause, and maintained a tightening bias, with "Governing Council is still concerned about risks to the outlook for inflation and remains prepared to raise the policy rate further if needed". But the statement couldn't ignore the run of weaker data and the Bank acknowledged that the "economy is no longer in excess demand". The market sees absolutely no chance of a further hike, with the risk of easier policy from the next meeting onwards, and a first full cut by April.

In currency markets, net moves overnight have been small for most, with changes against the USD all within 0.2% for the majors, with a 0.5% fall in the AUD proving to be the exception, although this followed a rally in the hours heading into the NZ close – the market not reacting to a softer than expected Q3 GDP print of 0.2% q/q. The NZD is currently trading around 0.6150, the AUD is at 0.6560 and NZD/AUD has nudged up to 0.9375. EUR and GBP have sustained the previous night's move to sub-1.08 and sub-1.26 respectively.

Domestic rates were marked substantially lower on the open in response to the chunky fall in global rates during the previous overnight session. But the short end couldn't hold on to that move and 2-year swap ended the day down less than 1bp, while the 10-year rate closed down 10bps to 4.67%. NZGBs also showed a flattening bias, with short rates anchored and the 10-year NZGB down 8bps to a three-month low of 4.84%. The bias will be for further declines in long-term rates today, with the Australian 10-year bond future down 7bps in yield terms since the NZ close.

In the day ahead only second-tier data are released including Australia and China trade data and US jobless claims.

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Coming Up

		Period	Cons.	Prev.	NZT
AU	Trade balance (\$b)	Oct	7.5	6.8	13:30
CH	Exports (USD, y/y%)	Nov	0.0	-6.4	
CH	Imports (USD, y/y%)	Nov	3.9	3.0	
GE	Industrial production (m/m%)	Oct	0.2	-1.4	20:00
US	Initial jobless claims (k)	2-Dec	220	218	02:30

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	0.6153	+0.4	0.6141	0.6177	CHF	0.8746	-0.0	S&P 500	4,566	-0.0	15.8	Oil (Brent)	74.48	-3.5		
AUD	0.6561	+0.1	0.6560	0.6596	SEK	10.454	-0.3	Dow	36,145	+0.1	7.6	Oil (WTI)	69.45	-4.0		
EUR	1.0783	-0.1	1.0773	1.0804	NOK	10.952	+0.2	Nasdaq	14,228	-0.0	29.2	Gold	2027.4	+0.4		
GBP	1.2577	-0.1	1.2577	1.2612	HKD	7.812	-0.1	Stoxx 50	4,483	+0.7	13.8	HRC steel	1061.0	+3.2		
JPY	147.21	+0.0	146.90	147.50	CNY	7.160	+0.2	FTSE	7,515	+0.3	-0.1	CRB	266.3	-0.5		
CAD	1.3582	-0.1			SGD	1.341	-0.0	DAX	16,656	+0.7	16.1	Wheat Chic.	637.0	+0.8		
NZD/AUD	0.9378	+0.3			IDR	15,494	-0.1	CAC 40	7,436	+0.7	11.2	Sugar	23.44	-6.0		
NZD/EUR	0.5706	+0.5			THB	35.21	-0.0	Nikkei	33,446	+2.0	20.8	Cotton	78.68	+1.3		
NZD/GBP	0.4892	+0.5			KRW	1,313	+0.1	Shanghai	2,969	-0.1	-7.2	Coffee	175.7	-4.4		
NZD/JPY	90.58	+0.4			TWD	31.47	-0.1	ASX 200	7,178	+1.7	-0.7	WM powder	3150	+0.6		
NZD/CAD	0.8357	+0.3			PHP	55.30	-0.0	NZX 50	11,463	+0.9	-1.3	Australian Futures				
NZ TWI	71.80	+0.4										3 year bond	96.11	0.11		
Interest Rates														10 year bond	95.76	0.08
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	5.64	4.41	3.73	USD	4.12	-0.05	15-Apr-25	5.24	0.01		1 year	5.59	-0.00		
AUD	4.35	4.35	4.15	4.51	AUD	4.28	-0.13	15-Apr-27	4.77	-0.03		2 year	5.20	-0.01		
NZD	5.50	5.64	5.20	4.67	NZD	4.84	-0.08	15-May-28	4.73	-0.04		5 year	4.64	-0.06		
EUR	4.00	3.96	3.08	2.68	GER	2.20	-0.05	15-May-31	4.79	-0.06		7 year	4.61	-0.08		
GBP	5.25	5.35	4.60	3.77	GBP	3.94	-0.08	14-Apr-33	4.84	-0.08		10 year	4.67	-0.10		
JPY	-0.01	-0.03	0.18	0.84	JPY	0.64	-0.03	15-May-41	5.10	-0.07		15 year	4.77	-0.10		
CAD	5.00	5.45	4.44	3.63	CAD	3.27	-0.07	15-May-51	5.05	-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 06:49

Source: Bloomberg

NZD exchange rates

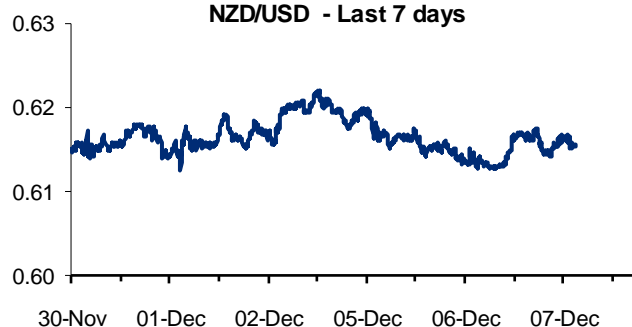
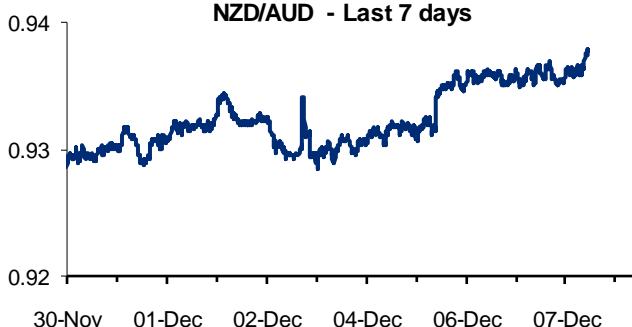
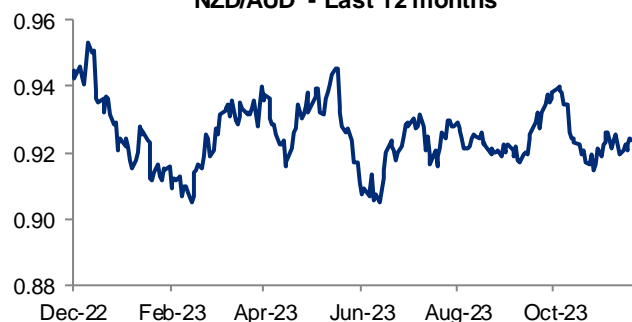
7/12/2023	6:50 am	Prev. NY close
USD	0.6153	0.6129
GBP	0.4892	0.4866
AUD	0.9378	0.9354
EUR	0.5706	0.5677
JPY	90.58	90.19
CAD	0.8357	0.8331
CHF	0.5381	0.5363
DKK	4.2547	4.2326
FJD	1.3846	1.3823
HKD	4.8068	4.7925
INR	51.27	51.11
NOK	6.7390	6.6967
PKR	174.82	174.29
PHP	34.03	33.90
PGK	2.2916	2.2827
SEK	6.4321	6.4283
SGD	0.8251	0.8220
CNY	4.4052	4.3805
THB	21.63	21.42
TOP	1.4349	1.4287
VUV	73.93	73.44
WST	1.6849	1.6646
XPF	67.53	67.22
ZAR	11.6482	11.6164

NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	0.72	1.20
3 Months	1.20	1.70
6 Months	-1.93	-0.53
9 Months	-8.27	-6.18
1 Year	-17.30	-14.30

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-9.64	-8.66
3 Months	-25.56	-24.33
6 Months	-51.67	-48.16
9 Months	-73.79	-68.35
1 Year	-94.24	-86.08

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

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