

# Research Markets Today

7 September 2023

## Events Round-Up

NZ: Vol. of building work (q/q%), Q2: -0.1 vs. 0.2 exp.  
 AU: GDP (q/q%), Q2: 0.4 vs. 0.4 exp.  
 GE: Factory orders (m/m%), Jul: -11.7 vs. -4.3 exp.  
 US: Trade balance (\$b), Jul: -65.0 vs. -68.0 exp.  
 US: ISM services index, Aug: 54.5 vs. 52.5 exp.  
 CA: Bank of Canada policy rate (%), Sep: 5.0 vs. 5.0 exp.

## Good Morning

The ISM US services sector survey was stronger than expected which underpinned expectations the US Federal Reserve will keep interest rates higher for longer. Treasury yields increased supporting the US Dollar while equities retreated with the S&P falling 0.8%. Euro Stoxx ended the day 0.7% lower marking its sixth successive day of declines and is testing the base of the trading range near 4200.

The August ISM services index increased to 54.5 from 52.7, easily beating consensus estimates of 52.5 and underscoring the resilience in the US economy. This takes the index to the highest level since February. Key subcomponent indices covering employment, new orders and prices paid all rose strongly though the employment gauge has overstated job growth in recent months.

Market expectations for the peak Fed funds rate firmed marginally. Although pricing for the September FOMC overwhelmingly favours a pause, the chance of a 25bp hike at the November meeting is now above 50%.

German factory orders fell 11.7% in July raising further concerns about the manufacturing sector. However, the drop reflected the impact of a large order in the aerospace sector that boosted June's numbers. After stripping out the impact of large-scale items, industrial orders rose 0.3% in the month.

ECB Governing Council member Knot said interest-rate markets are maybe underestimating the likelihood of a September hike and that it would be a close call. Knot's comments were made just ahead of the week-long quiet period before the upcoming monetary policy meeting. Market pricing now sees a ~30% chance of a 25bp hike up slightly from the previous day. Front end German bund yields moved higher following Knot's comments and ended

up 9bps to 3.1% while 10-year bund yields increased 4bps to 4.65%.

As expected, the Bank of Canada held rates steady at 5.0%, following two increases in June and July. In its decision to hold rates, the bank pointed to recent evidence that excess demand in the economy is easing and to the lagged effects of monetary policy. Policy makers remain concerned about the persistence of underlying inflationary pressures and are 'prepared to increase the policy rate further if needed.'

US treasuries extended the recent move higher in yields. The move was led by the front end with 2-year yields increasing 5bps and moving back above 5% following the ISM services data. Longer maturities lagged the move with 10-year yields up 3bp and the 30-year bonds down 1bp. 10-year yields have rebounded more than 20bps off the lows from late last week and are moving back towards the August highs.

The US Dollar initially rallied following the ISM data but slipped back to be little changed and is consolidating at the highest levels since March after strong gains in recent sessions. EUR/USD was underpinned by Knot's comments trading up towards 1.0750 before retracing aligned with the Dollar bounce post data. GBP/USD underperformed and fell to a 3-month low following comments by Bank of England governor Andrew Bailey that the UK economy is now 'much nearer the top of the cycle'.

NZD/USD retested the YTD low near 0.5860 in the local session yesterday and again overnight with price action driven by broad US Dollar moves. NZD underperformed relative to the AUD with NZD/AUD slipping trading below 0.9200.

Asian policy makers have been pushing back against currency weakness. In Japan, said Masato Kanda, vice finance minister for international affairs said speculative moves could be seen in the foreign exchange market and warned that Tokyo was prepared to act if needed. Meanwhile the PBOC set the fix with the largest deviation relative to analyst expectations since the survey began in 2018. The PBOC has undertaken a range of measures aimed at supporting the yuan set against the backdrop of growing headwinds for the Chinese economy.

NZ fixed income markets moved higher in yield in the local session yesterday taking direction from offshore moves in

the absence of domestic data. 10-year government bond yields increased 3bp to 5.01%, up from 4.85% at the start of the week. Bonds cheapened relative to swaps ahead of the weekly bond tender today. Australian 3 and 10-year bond futures are little changed since the local close yesterday.

New Zealand Debt Management is tendering NZ\$500 million of NZGBs today split across 15 May 2030 (\$225m), 15 May 2032 (\$175m) and 15 April 2037 (\$100m). In other primary market developments, New Zealand Local Government Funding Agency Limited (LGFA) has launched taps of the 15 April 2025 and 15 May 2030 maturities, the latter a sustainable finance bond. Books will close at 11:30 (NZT) today.

The domestic focus today will be further 'partial' Q2 GDP indicators ahead of the full release on 21 September. After the RBA left rates on hold earlier in the week, Governor

Lowey may provide further details on the bank's thinking in his final speech in the role.

[stuart.ritson@bnz.co.nz](mailto:stuart.ritson@bnz.co.nz)

### Coming Up

		Period	Cons.	Prev.	NZT
NZ	Mfg Activity Volume QoQ	2Q		-2.1	10:45
AU	Trade Balance	Jul	10000	11321	13:30
AU	RBA's Lowe-Speech				15:10
CH	Exports YoY	Aug	-9	-14.5	
CH	Imports YoY	Aug	-9	-12.4	
GE	Industrial Production SA MoM	Jul	-0.4	-1.5	18:00
US	Initial Jobless Claims	Sep 2	233.5	228	00:30
US	Fed's Williams Speaks at Bloomberg Forum				07:30

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	0.5870	-0.2	0.5860	0.5898	CHF	0.8914	+0.2	S&P 500	4,461	-0.7	14.1	Oil (Brent)	90.71	+0.7
AUD	0.6380	+0.0	0.6364	0.6402	SEK	11.121	+0.2	Dow	34,453	-0.5	10.6	Oil (WTI)	87.67	+1.1
EUR	1.0726	+0.0	1.0703	1.0749	NOK	10.723	+0.0	Nasdaq	13,863	-1.1	20.1	Gold	1923.0	-0.6
GBP	1.2505	-0.5	1.2482	1.2581	HKD	7.844	+0.0	Stoxx 50	4,238	-0.7	21.1	HRC steel	723.0	+1.7
JPY	147.71	-0.0	147.13	147.74	CNY	7.318	+0.2	FTSE	7,426	-0.2	1.7	CRB	284.9	+0.2
CAD	1.3653	+0.1			SGD	1.364	+0.2	DAX	15,741	-0.2	22.3	Wheat Chic.	609.5	+1.7
NZD/AUD	0.9201	-0.2			IDR	15,295	+0.2	CAC 40	7,194	-0.8	17.8	Sugar	26.22	-1.6
NZD/EUR	0.5473	-0.3			THB	35.58	+0.3	Nikkei	33,241	+0.6	21.2	Cotton	86.00	-2.3
NZD/GBP	0.4694	+0.2			KRW	1,331	+0.0	Shanghai	3,158	+0.1	-2.7	Coffee	153.8	+0.2
NZD/JPY	86.71	-0.2			TWD	31.97	+0.1	ASX 200	7,257	-0.8	7.8	WM powder	2665	+3.7
NZD/CAD	0.8014	-0.2			PHP	56.96	+0.2	NZX 50	11,428	-0.1	-1.0	<b>Australian Futures</b>		
NZ TWI	69.42	-0.1										3 year bond	96.21	0.01
<b>Interest Rates</b>														
		<b>Rates</b>			<b>Swap Yields</b>		<b>Benchmark 10 Yr Bonds</b>		<b>NZ Government Bonds</b>			<b>NZ Swap Yields</b>		
		Cash	3Mth	2 Yr	10 Yr		Last	Net Day		Last			Last	
USD	5.50	5.50	5.65	4.92	3.99	USD	4.29	0.03	15-Apr-25	5.52	0.01	1 year	5.72	-0.01
AUD	4.10	4.10	4.12	4.15	4.47	AUD	4.13	-0.01	15-Apr-27	5.10	0.02	2 year	5.48	-0.01
NZD	5.50	5.50	5.65	5.48	4.84	NZD	5.01	0.03	15-May-28	5.01	0.02	5 year	4.93	0.00
EUR	3.75	3.80	3.75	3.71	3.20	GER	2.65	0.04	15-May-31	5.00	0.03	7 year	4.85	0.01
GBP	5.25	5.57	5.57	5.54	4.46	GBP	4.53	0.01	14-Apr-33	5.01	0.03	10 year	4.84	0.02
JPY	-0.08	-0.03	0.13	0.83	JPY	0.66	0.00	15-May-41	5.19	0.03	15 year	4.91	0.02	
CAD	5.00	5.50	5.23	4.18	CAD	3.69	-0.01	15-May-51	5.19	0.03				

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

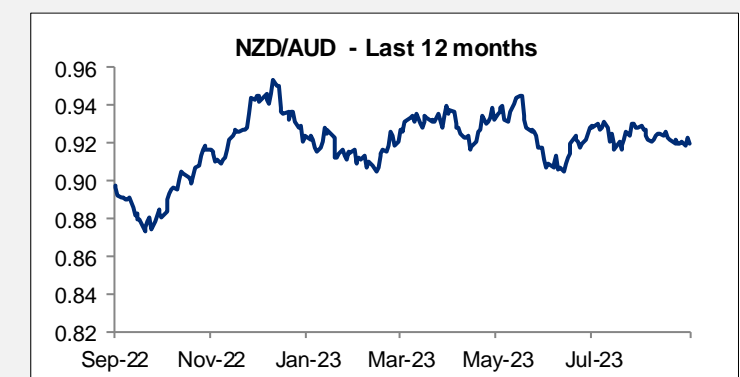
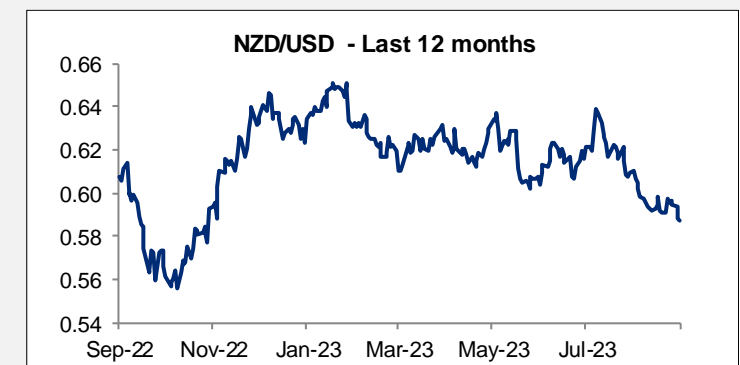
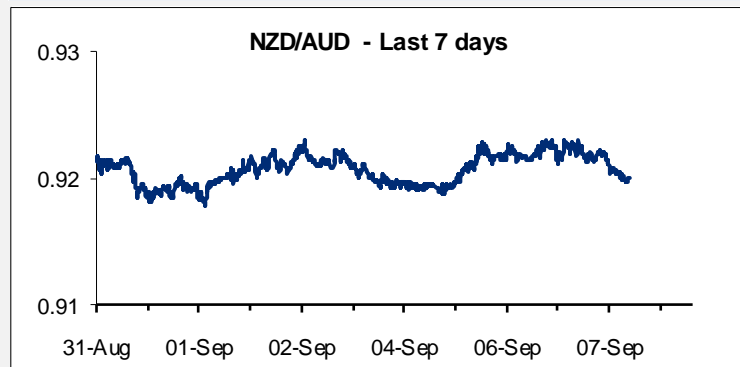
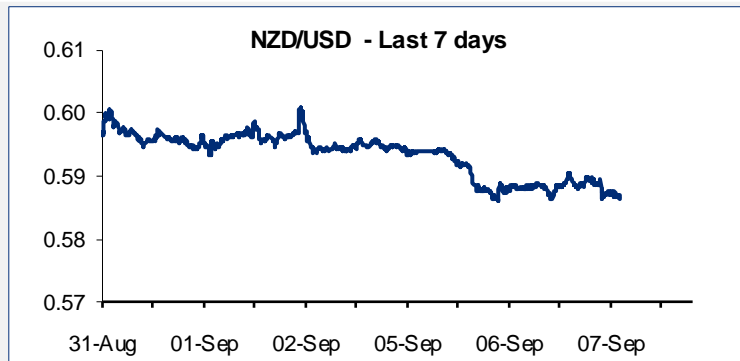
\*\* All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:49

Source: Bloomberg

**NZD exchange rates**

7/09/2023	6:49 am	Prev. NY close
USD	0.5870	0.5884
GBP	0.4694	0.4683
AUD	0.9201	0.9224
EUR	0.5473	0.5488
JPY	86.71	86.92
CAD	0.8014	0.8027
CHF	0.5233	0.5234
DKK	4.0814	4.0906
FJD	1.3436	1.3505
HKD	4.6041	4.6138
INR	48.80	48.86
NOK	6.2943	6.3084
PKR	180.16	180.68
PHP	33.43	33.44
PGK	2.1191	2.1265
SEK	6.5279	6.5309
SGD	0.8006	0.8010
CNY	4.2957	4.2973
THB	20.85	20.87
TOP	1.3683	1.4003
VUV	72.01	71.80
WST	1.6172	1.6298
XPF	64.66	65.29
ZAR	11.2851	11.3003



**NZD/USD Forward Points**

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.14	0.32
3 Months	0.34	0.96
6 Months	1.18	2.34
9 Months	0.18	2.20
1 Year	-2.68	0.33

**NZD/AUD Forward points**

	BNZ buys NZD	BNZ Sells NZD
1 Month	-11.07	-10.10
3 Months	-29.70	-28.24
6 Months	-58.68	-55.43
9 Months	-86.96	-81.53
1 Year	-112.00	-102.43

# Contact Details

## BNZ Research

**Stephen Toplis**

Head of Research  
+64 4 474 6905

**Craig Ebert**

Senior Economist  
+64 4 474 6799

**Doug Steel**

Senior Economist  
+64 4 474 6923

**Jason Wong**

Senior Markets Strategist  
+64 4 924 7652

**Stuart Ritson**

Senior Interest Rate Strategist  
+64 9 9248601

**Mike Jones**

BNZ Chief Economist  
+64 9-956 0795

## Main Offices

**Wellington**

Level 4, Spark Central  
42-52 Willis Street  
Private Bag 39806  
Wellington Mail Centre  
Lower Hutt 5045  
New Zealand  
Toll Free: 0800 283 269

**Auckland**

80 Queen Street  
Private Bag 92208  
Auckland 1142  
New Zealand  
Toll Free: 0800 283 269

**Christchurch**

111 Cashel Street  
Christchurch 8011  
New Zealand  
Toll Free: 0800 854 854

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