

Research Markets Today

8 March 2024

Events Round-Up

NZ: Manufacturing sales vol. (q/q%), Q4: -0.6 vs. 3.2 prev.
 AU: Trade balance (\$b), Jan: 11.0 vs. 11.5 exp.
 AU: Home loans value (m/m%), Jan: -3.9 vs. 2.0 exp.
 JN: Labour cash earnings (y/y%), Jan: 2.0 vs. 1.2 exp.
 CH: Exports (USD, YTD y/y%), Feb: 7.1 vs. 1.9 exp.
 CH: Imports (USD, YTD y/y%), Feb: 3.5 vs. 2.0 exp.
 GE: Factory orders (m/m%), Jan: -11.3 vs. -6.0 exp.
 EC: ECB deposit facility rate (%), Feb: 4.0 vs. 4.0 exp.
 US: Trade balance (\$b), Jan: -67.4 vs. -63.5 exp.
 US: Initial Jobless Claims, wk to 2-Mar: 217 vs. 216 exp.

Good Morning

US and European equities rose to fresh record highs, with the prospect of rate cuts supporting investor confidence in the market, although global rates only show small movements. The ECB left rates on hold and President Lagarde hinted at a June rate cut. The USD is broadly weaker again, with the NZD lifting to 0.6170, although JPY has outperformed as the BoJ edges closer to a rate hike.

Equity market performance for the day seems correlated with expectations of monetary policy, with the prospect of rate cuts by the ECB and Fed driving the S&P500 (+0.9%) and Euro Stoxx 600 (+1.0%) to fresh record highs, and the prospect of a rate hike by the BoJ seeing the Nikkei 225 index falling, down 1.2%.

Fed Chair Powell faced another session in front of lawmakers and, while the key messages were the same, the headlines appeared dovish. He said the Fed was “not far” from having confidence to cut rates, following a comment that the cuts “can and will begin” this year with continued disinflation, adding that the Fed understands the risks of waiting too long to cut rates. US Treasuries only show small moves for the day, with a steepening bias. The 2-year rate is down 3bps and the 10-year rate up 1bp at 4.12%.

There were no real surprises from the ECB, which kept rates on hold and lowered its inflation and growth projections for this year and with minor revisions further out. Headline and core Inflation are expected to average close to 2% through 2025 and 2026. President Lagarde said that progress toward the inflation target is good and that

policy makers are more confident but not sufficiently confident. On policy, she said the ECB was unlikely to be in a position to cut rates in April – the Bank will only have a little more data then – while in June they will know a lot more. This was consistent with her previous message that the ECB would likely be cutting rates in the summer.

In terms of the market’s reaction, initial falls in rates and EUR were reversed. German 2 and 10-year rates are down 2bps on the day and EUR is modestly stronger at 1.0935, but much of this reflecting broad-based weakness in the USD. The market almost fully prices a full rate cut by June and nearly four rate cuts by year-end.

Yesterday, Japanese wage growth positively surprised at 2.0% y/y in January, the fastest rate since June. The BoJ is looking for a sustained lift in wage inflation before lifting rates to give it confidence that higher CPI inflation will be sustained. Bloomberg reported that “BoJ officials are getting more confident over the strength of wage growth” and “a consensus has yet to emerge among officials on whether the central bank should move...at the policy meeting on March 19 or wait until April”, regarding the scrapping of its negative interest rate.

In addition, BoJ board member Nakagama said “there are signs of a clear shift in businesses’ behaviour for setting wages” and he noted the steady progress toward meeting the stable 2% inflation target. Rengo, Japan’s largest labour union, announced that the average demand for wages was +5.85%, up from the initial demand of 4.49% a year ago, while a smaller union showed full-time workers with average wage gains of 6.7%, well up from the 5.3% a year ago.

All this news raised speculation that the BoJ’s meeting later this month is definitely live for a possible rate hike. The 2-year JGB rate rose to a fresh 13-year high just below 0.2% and, with near record short positions in the yen and the chance of an imminent rate hike against the global trend, the yen strengthened. USD/JPY fell to as low as 147.60 and currently sits just above 148.

Against a backdrop of stronger risk appetite, the USD is broadly weaker for a second day. NZD has shown a steady rise to 0.6170 and the AUD to 0.6620. NZD/JPY traded below 91 overnight but has recovered to 91.4 and NZD/AUD has drifted down to 0.9325. The NZD has made modest gains of 0.2-0.4% against EUR, GBP and CAD.

US economic data showed initial jobless claims broadly in line with market expectations, unchanged at 217k, while continuing claims continued to push higher, a sign that it is taking longer for people who lost jobs to find a new one. US companies announced about 85k of job cuts in February, according to Challenger, with this indicator suggesting that initial jobless claims data will soon show a decisive lift, a reflection of a weakening labour market. In Germany, big ticket items are responsible for the 11.3% slump in factory orders in January, following the revised higher 12% lift in December, while the underlying trend remains soft.

Chinese exports and imports data were stronger than expected, with exports for the Jan-Feb period combined up 7.1% y/y in USD terms, an encouraging sign even if there is doubt whether it can be sustained, while imports were up 3.5%.

In the domestic rates market there were relatively small movements, with NZGBs down a touch from the 5-year maturity onwards. NZDM's weekly bond tender went well, with less duration for the market to absorb than usual, seeing good bid-cover ratios and the tenders clearing through prevailing mid rates. Swaps rates fell 2-3bps across the curve.

NZ quarterly indicators released that feed into Q4 GDP resulted in BNZ Economics nudging up its estimate to +0.1%. Against strong population growth of 0.6% for the quarter, this would represent another significant

contraction in GDP per capita, with the economy experiencing conditions similar to the depths of the GFC on this basis – not news to most.

In the day ahead, the focus will be on the US employment report, with the consensus expecting a still-solid 200k lift in non-farm payrolls, leaving the unemployment rate unchanged at 3.7%, while average hourly earnings increases by “only” 0.2% m/m, seeing the annual increase nudge down to 4.3%. China inflation data will be released on Saturday.

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Coming Up

		Period	Cons.	Prev.	NZT
GE	Industrial production (m/m%)	Jan	0.6	-1.6	20:00
CA	Unemployment rate (%)	Feb	5.8	5.7	02:30
US	Change in nonfarm payrolls (k)	Feb	200	353	02:30
US	Unemployment rate (%)	Feb	3.7	3.7	02:30
US	Avg hourly earnings (m/m%)	Feb	0.2	0.6	02:30
US	Avg hourly earnings (y/y%)	Feb	4.3	4.5	02:30
Saturday					
CH	PPI (y/y%)	Feb	-2.5	-2.5	14:30
CH	CPI (y/y%)	Feb	0.3	-0.8	14:30

Source: Bloomberg, BNZ

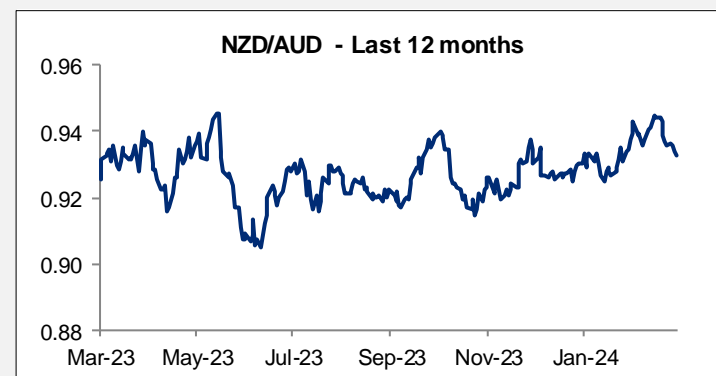
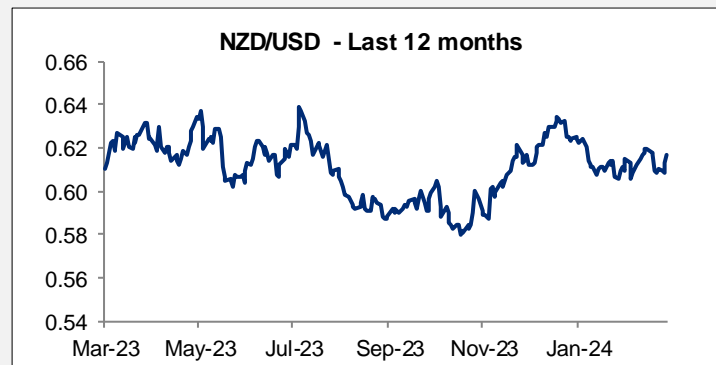
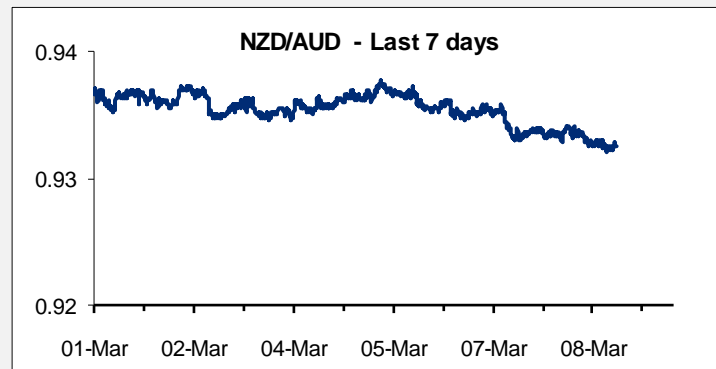
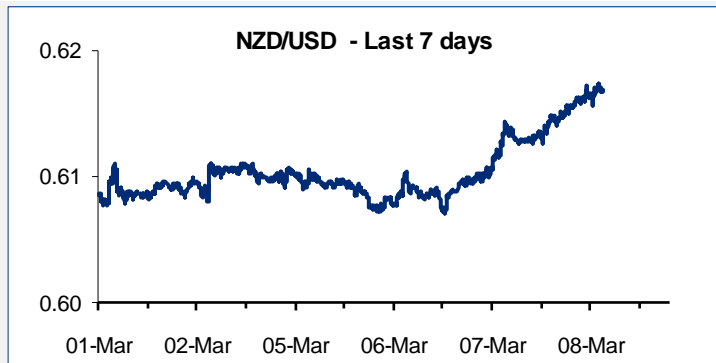
Currencies							Equities				Commodities				
Indicative overnight ranges (*)					Other FX		Major Indices				Price (Near futures, except CRB)				
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day				
NZD	0.6169	+0.6	0.6140	0.6176	CHF	0.8790	-0.4		S&P 500	5,150	+0.9	29.2	Oil (Brent)	83.24	+0.3
AUD	0.6615	+0.8	0.6574	0.6625	SEK	10.241	-0.5		Dow	38,773	+0.3	18.0	Oil (WTI)	79.23	+0.1
EUR	1.0933	+0.3	1.0868	1.0942	NOK	10.420	-0.7		Nasdaq	16,253	+1.4	41.0	Gold	2162.9	+0.2
GBP	1.2787	+0.4	1.2730	1.2798	HKD	7.821	-0.1		Stoxx 50	4,974	+1.2	16.2	HRC steel	810.0	+1.0
JPY	148.13	-0.8	147.59	148.68	CNY	7.193	-0.1		FTSE	7,692	+0.2	-2.9	CRB	278.1	+0.8
CAD	1.3475	-0.3			SGD	1.334	-0.3		DAX	17,843	+0.7	14.7	Wheat Chic.	532.8	+0.4
NZD/AUD	0.9326	-0.1			IDR	15,655	-0.3		CAC 40	8,016	+0.8	9.2	Sugar	21.25	-1.0
NZD/EUR	0.5643	+0.3			THB	35.55	-0.2		Nikkei	39,599	-1.2	39.2	Cotton	99.28	+4.2
NZD/GBP	0.4824	+0.2			KRW	1,331	-0.3		Shanghai	3,027	-0.4	-7.8	Coffee	191.6	+2.8
NZD/JPY	91.38	-0.2			TWD	31.54	-0.1		ASX 200	7,764	+0.4	6.2	WM powder	3110	-1.6
NZD/CAD	0.8313	+0.3			PHP	55.84	-0.1		NZX 50	11,804	+0.1	-0.4	Australian Futures		
NZ TWI	71.93	+0.3						VIX Index	14.41	-0.6	-26.4	3 year bond	96.37	-0.01	
												10 year bond	95.98	-0.01	
Interest Rates							NZ Government Bonds				NZ BKBM and Swap Yields				
Rates				Swap Yields		Benchmark 10 Yr Bonds									
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day	Last	Chg		Last	Chg				
USD	5.50	5.59	4.43	3.75	USD	4.12	0.02	15-May-26	4.76	0.01	BKBM 1-mth	5.59	0.00		
AUD	4.35	4.35	3.97	4.27	AUD	4.01	0.00	15-Apr-27	4.57	0.00	BKBM 3-mth	5.65	-0.01		
NZD	5.50	5.65	5.00	4.45	NZD	4.66	-0.01	15-May-28	4.49	-0.00	1 year	5.49	-0.01		
EUR	4.00	3.94	3.15	2.60	GER	2.31	-0.02	20-Apr-29	4.48	-0.01	2 year	5.00	-0.02		
GBP	5.25	5.33	4.56	3.73	GBP	4.00	0.01	15-May-30	4.50	-0.01	3 year	4.69	-0.02		
JPY	-0.01	-0.03	0.27	0.88	JPY	0.73	0.01	15-May-31	4.53	-0.02	5 year	4.43	-0.03		
CAD	5.00	5.32	4.46	3.70	CAD	3.37	0.02	15-May-32	4.58	-0.01	7 year	4.40	-0.03		
								14-Apr-33	4.62	-0.01	10 year	4.45	-0.03		
								15-May-34	4.66	-0.01	15 year	4.56	-0.03		
								15-May-37	4.78	-0.01					
								15-May-41	4.87	-0.00					
								15-May-51	4.84	-0.00					
								15-May-54	4.85	-0.00					

* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer
Rates are as of: NZT 06:56

Source: Bloomberg

NZD exchange rates

8/03/2024	6:57 am	Prev. NY close
USD	0.6169	0.6129
GBP	0.4824	0.4814
AUD	0.9326	0.9337
EUR	0.5643	0.5623
JPY	91.38	91.56
CAD	0.8313	0.8283
CHF	0.5423	0.5406
DKK	4.2053	4.1921
FJD	1.3882	1.3829
HKD	4.8248	4.7960
INR	51.07	50.77
NOK	6.4282	6.4313
PKR	172.27	171.18
PHP	34.45	34.25
PGK	2.3403	2.3251
SEK	6.3177	6.3107
SGD	0.8231	0.8206
CNY	4.4371	4.4113
THB	21.95	21.88
TOP	1.4471	1.4408
VUV	74.63	74.42
WST	1.6764	1.6693
XPF	67.65	67.31
ZAR	11.5469	11.5415



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.18	0.22
3 Months	-0.73	-0.23
6 Months	-4.59	-3.39
9 Months	-10.12	-8.13
1 Year	-16.49	-13.49

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-9.29	-8.43
3 Months	-26.58	-25.40
6 Months	-53.26	-50.05
9 Months	-76.81	-71.72
1 Year	-97.64	-90.38

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