

Research Markets Today

8 November 2023

Events Round-Up

JN: Labor cash earnings (y/y%), Sep: 1.2 vs. 1.1 exp.

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

CH: Imports (USD, y/y%), Oct: 3.0 vs. -5.0 exp.

CH: Exports (USD, y/y%), Oct: -6.4 vs. -3.5 exp.

GE: Industrial production (m/m%), Sep: -1.4 vs. -0.2 exp.

Good Morning

Global equities are consolidating the large move from the previous week with the S&P up 0.2% in early afternoon trading amid a quiet economic calendar. The US Dollar has made broad-based gains while global bonds are lower in yield. In commodity markets, oil prices have fallen close to 3%, to the lowest level in more than 3 months, on concerns about global growth following weak Chinese trade data.

Comments by US Federal Reserve officials emphasised that bringing inflation lower to 2% is its primary goal. However, Chicago Fed President Austan Goolsbee said he didn't want to pre-commit to whether further rate hikes would be required. Minneapolis Fed President Neel Kashkari said the 'Fed would do more on rates if needed'. Market pricing continues to indicate a less than 10% chance of a 25bps rate hike at the December FOMC.

German industrial production fell for the fourth consecutive month. The 1.4% m/m fall was larger than expected. The manufacturing sector is under pressure from high energy prices, the rise in interest rates and the slowdown in China.

Chinese imports grew 3% y/y in October in US dollar terms which was the first increase since February. Meanwhile, exports dropped for the sixth consecutive month. The economic recovery remains fragile in China and is set against the backdrop of weak consumer and business sentiment. Manufacturing and services PMIs were below expectations in October and at levels consistent with subdued activity.

The Reserve Bank of Australia increased its policy rate by 25bps to a 12-year high of 4.35% which was in line with expectations. Inflation projections were revised higher to 3.5% by end-2024 and the peak unemployment rate was reduced marginally. The accompanying statement seemed

to temper the RBA's tightening bias outlining 'whether further tightening is required to ensure that inflation returns to target in a reasonable timeframe will depend on the data and the evolving assessment of risks'.

Given the revision to the RBA's economic projections, we expect one further 25bps rate hike in February. The RBA will release its full suite of forecasts in the Statement on Monetary Policy on Friday. The market reduced the probability of further tightening following the meeting contributing to a sharp fall in the AUD and a rally in ACGBs.

US front end treasuries are little changed while 10-year bonds are close to 6bps lower in yield contributing to a flatter yield curve. The 2y/10y curve has retraced to -35bps from the recent highs of -15bps in late October as the curve steepening move has lost momentum. Bloomberg reported that estimated annual interest payments on US Government debt have risen to US\$1 trillion. This has doubled over the 19 months and represents about 16% of the Federal budget in the 2022 fiscal year.

The US dollar made broad based gains partially unwinding the weakness from last week following the FOMC and weaker than expected US labour market report. The RBA decision weighed on the AUD, and it is down close to 1% against the dollar and weaker on the crosses. The Norwegian Krone was the weakest performing G10 currency following the slide in oil prices.

The NZD continued to move lower in offshore trade taking its cue from the stronger US dollar backdrop and the weaker AUD. NZD/USD is almost a big figure below the highs above 0.6000 reached on Monday. NZD/AUD extended the post RBA gains and traded above 0.9230 in offshore trade.

NZ government bond yields ended higher in yield in the local session yesterday reflecting the moves in offshore markets. 10-year government bond yields increased 4bps to 4.20%. There was a further flattening in the 10y/30y curve which closed at 10bps. Swaps outperformed relative to bonds with the 10-year edging up 1bps.

New Zealand Local Government Funding Agency (LGFA) is tendering NZ\$150m of nominal bonds split across 15 May 2027 (\$50m), 20 April 2029 (\$50m) and 14 April 2033 (\$50m).

The RBNZ's survey of expectations is released today with the market focused on the inflation component. 2-year ahead inflation expectations were stable at 2.8% in Q3. There is no data of note on the international economic calendar.

stuart.ritson@bnz.co.nz

Coming Up

	Period	Cons.	Prev.	NZT
US	Fed's Logan Speaks at Conference			07:30
NZ	2Yr Inflation Expectation (%)	4Q	2.83	15:00
UK	BOE Governor Bailey speaks			22:30

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	0.5919	-0.8	0.5911	0.5935	CHF	0.9015	+0.2	S&P 500	4,374	+0.2	14.9	Oil (Brent)	82.11	-3.7
AUD	0.6416	-1.1	0.6404	0.6441	SEK	10.952	+0.3	Dow	34,126	+0.1	4.0	Oil (WTI)	77.82	-3.8
EUR	1.0677	-0.4	1.0664	1.0712	NOK	11.227	+1.5	Nasdaq	13,625	+0.8	29.0	Gold	1969.6	-1.0
GBP	1.2268	-0.6	1.2263	1.2337	HKD	7.820	-0.0	Stoxx 50	4,153	-0.1	12.0	HRC steel	885.0	+0.6
JPY	150.59	+0.4	150.25	150.69	CNY	7.280	+0.1	FTSE	7,410	-0.1	1.5	CRB	281.9	+0.0
CAD	1.3781	+0.6			SGD	1.356	+0.4	DAX	15,153	+0.1	12.0	Wheat Chic.	597.8	-0.8
NZD/AUD	0.9225	+0.4			IDR	15,636	+0.6	CAC 40	6,986	-0.4	8.9	Sugar	27.60	-1.3
NZD/EUR	0.5544	-0.4			THB	35.57	+0.1	Nikkei	32,272	-1.3	15.8	Cotton	76.78	-1.6
NZD/GBP	0.4825	-0.1			KRW	1,308	+0.8	Shanghai	3,057	-0.0	-0.2	Coffee	169.5	-1.2
NZD/JPY	89.13	-0.4			TWD	32.22	+0.4	ASX 200	6,977	-0.3	0.3	WM powder	3010	+0.0
NZD/CAD	0.8157	-0.2			PHP	56.14	+0.4	NZX 50	11,224	-0.3	0.6	Australian Futures		
NZ TWI	69.97	-0.3										3 year bond	95.74	0.03
												10 year bond	95.39	0.15
Interest Rates														
	Rates		Swap Yields		Benchmark 10 Yr Bonds		NZ Government Bonds			NZ Swap Yields				
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day		Last		Last		Last		
USD	5.50	5.63	4.79	4.23	USD	4.59	-0.05	15-Apr-25	5.37	-0.02		1 year	5.64	0.01
AUD	4.10	4.37	4.43	4.90	AUD	4.70	-0.03	15-Apr-27	5.02	0.03		2 year	5.31	0.00
NZD	5.50	5.63	5.31	5.10	NZD	5.20	0.03	15-May-28	5.03	0.03		5 year	4.97	0.01
EUR	4.00	3.96	3.52	3.16	GER	2.66	-0.08	15-May-31	5.15	0.03		7 year	5.01	0.01
GBP	5.25	5.36	4.79	4.12	GBP	4.27	-0.11	14-Apr-33	5.20	0.03		10 year	5.10	0.02
JPY	-0.01	-0.03	0.29	1.05	JPY	0.88	0.00	15-May-41	5.38	0.02		15 year	5.21	0.02
CAD	5.00	5.54	4.86	4.20	CAD	3.76	-0.05	15-May-51	5.30	0.02				

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

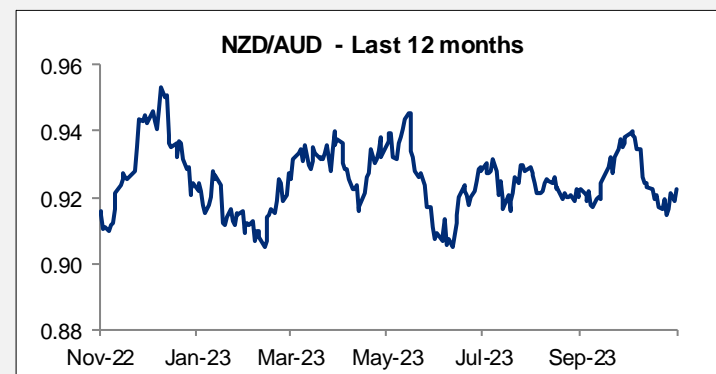
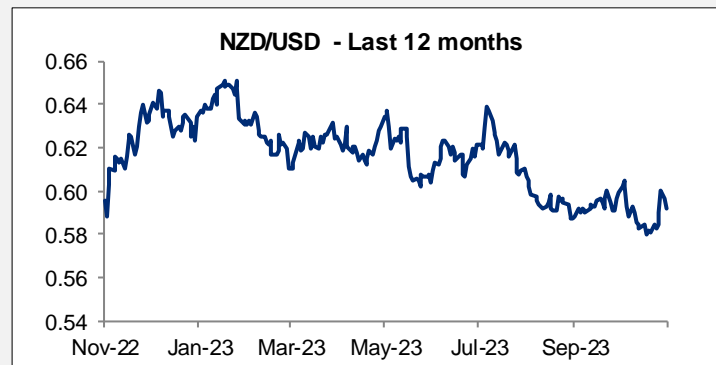
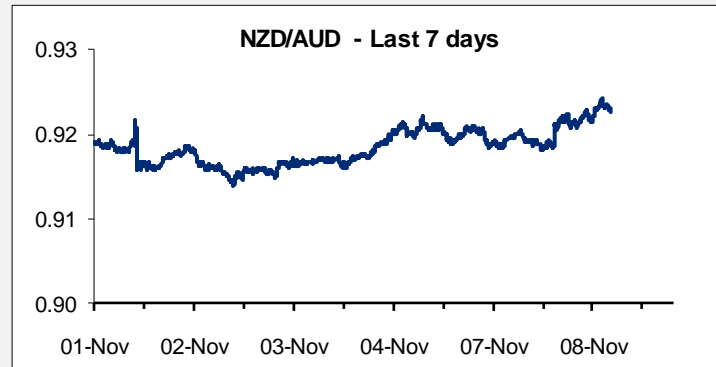
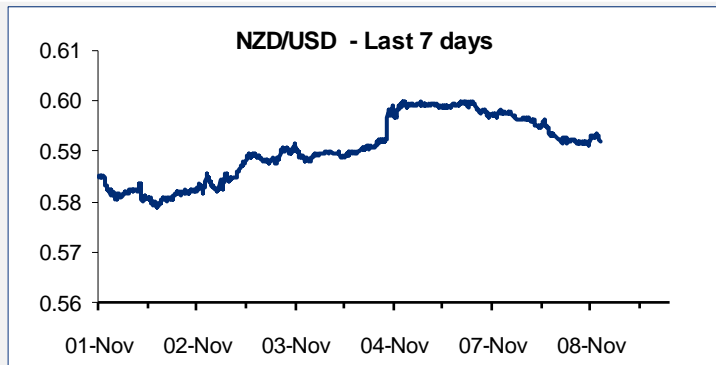
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:39

Source: Bloomberg

NZD exchange rates

8/11/2023	6:38 am	Prev. NY close
USD	0.5919	0.5964
GBP	0.4825	0.4831
AUD	0.9225	0.9191
EUR	0.5544	0.5564
JPY	89.13	89.50
CAD	0.8157	0.8171
CHF	0.5336	0.5364
DKK	4.1342	4.1503
FJD	1.3468	1.3585
HKD	4.6285	4.6643
INR	49.29	49.63
NOK	6.6452	6.5961
PKR	169.51	169.95
PHP	33.22	33.35
PGK	2.1817	2.2130
SEK	6.4824	6.5095
SGD	0.8025	0.8055
CNY	4.3093	4.3359
THB	21.05	21.17
TOP	1.3508	1.4013
VUV	72.19	72.59
WST	1.6350	1.6516
XPF	66.36	66.74
ZAR	10.8769	10.9097



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	0.17	0.42
3 Months	1.34	1.84
6 Months	1.75	2.79
9 Months	-0.01	1.75
1 Year	-3.63	-0.63

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-8.73	-8.11
3 Months	-24.42	-23.13
6 Months	-45.37	-42.34
9 Months	-63.23	-58.31
1 Year	-77.65	-70.14

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

This document has been produced by Bank of New Zealand (BNZ). BNZ is a registered bank in New Zealand and is only authorised to offer products and services to customers in New Zealand.

Analyst Disclaimer: The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed.

BNZ maintains an effective information barrier between the research analysts and its private side operations. Private side functions are physically segregated from the research analysts and have no control over their remuneration or budget. The research functions do not report directly or indirectly to any private side function. The Research analyst might have received help from the issuer subject in the research report.

New Zealand: The information in this publication is provided for general information purposes only, and is a summary based on selective information which may not be complete for your purposes. This publication does not constitute any advice or recommendation with respect to any matter discussed in it, and its contents should not be relied on or used as a basis for entering into any products described in it. Bank of New Zealand recommends recipients seek independent advice prior to acting in relation to any of the matters discussed in this publication.

Any statements as to past performance do not represent future performance, and no statements as to future matters are guaranteed to be accurate or reliable.

Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever which may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

USA: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.