

Research Markets Today

9 February 2024

Events Round-Up

CH: PPI (y/y%), -2.5: xx vs. -2.6 exp.

CH: CPI (y/y%), Jan: -0.8 vs. -0.5 exp.

US: Initial jobless claims (k), wk to 3 Feb: 218 vs. 220 exp.

Good Morning

In an uneventful overnight session, global rates have pushed higher, ahead of a chunky 30-year Treasury auction and some nerves regarding US CPI revisions due tonight. US equities are flat, with the S&P500 still unable to break the 5000 mark after getting within a fraction of a point yesterday. The USD is broadly stronger, dragging the NZD back below 0.61, the yen has underperformed and NZD/AUD is getting close to 0.94.

US Treasury yields have drifted higher since the NZ close by about 6bps to 4.15%, with familiar themes of heavy bond supply, uncooperative data, and consistent pushback from Fed speakers on any early start to the easing cycle. After we go to print the results of the \$25b 30-year bond auction will be released.

The market has particular focus on the revisions to US CPI figures, due overnight. A year ago, the revisions to seasonal factors shallowed out the previously reported decline for the most recent months and there are some nerves that the upcoming revision will show the same, playing to the Fed's view of not rushing in with rate cuts.

On that note, Richmond Fed President Barkin's message was in line with the multitude of other FOMC members since last week's FOMC meeting, viz "I think we've got time to be patient" on cutting rates and he was looking for a "few more months" of inflation data, although he didn't want to prejudge the decision for the March meeting. He played down the spillover risks from the recent collapse of NY Community Bank, expecting that the banking system has enough capital to weather the risk.

US jobless claims fell 9k to 218k last week, in line with the consensus after accounting for a small upward revision to the previous week's figure. This took the four-week moving average up to a six-week high, but it's still not clear whether a new uptrend has begun, given seasonal adjustment issues around the holiday season.

European rates have also drifted higher. ECB Chief Economist Lane pushed back on the market's view of an early cut to rates. He said "we need to be further along in the disinflation process before we can be sufficiently confident that inflation will hit the target in a timely manner and settle at target sustainably", adding he thought there was an "economically meaningful upside risk in this wage issue". This view followed similar lines expressed by other ECB policy makers. At the hawkish end of the spectrum, Austria's CB governor Holzmann said there was "a certain chance that there will be no interest rate cut at all this year or only at the very end of the year".

It's a contrasting story in Japan, where the market is anticipating a hawkish pivot, but yesterday BoJ Deputy Governor Uchida offered some dovish soundbites in as speech. He said it's hard to imagine the central bank will be raising its policy rate continuously and rapidly, even after the negative interest rate is ended, adding that financial conditions will remain accommodative. Still, his view was consistent with an eventual end to the negative policy rate, even if the exact timing of such a move remains uncertain.

His speech triggered a weaker path for the yen and the higher global yields have added to the weaker trend, seeing JPY the weakest of the majors over the past 24 hours, with USD/JPY trading nearly as high as 149.50. This has been against a backdrop of broad USD strength, although EUR has managed to hold its ground around 1.0775.

NZD and AUD have underperformed, some spillover from a weaker yuan, not helped by CPI inflation in China deflating by the most since 2009. The index fell 0.8% y/y, with lower food prices explaining most of the undershoot relative to market estimates. The NZD fell back below 0.61 overnight, finding some support around 0.6080. The AUD found support around 0.6480 and currently sits just below 0.65.

NZD/AUD continues to push higher, now getting closer to 0.94 and at its highest level since mid-October. Higher NZ-Australia rate spreads explain the recent move higher, with nerves around the possibility of the RBNZ hiking rates again against a backdrop of more comfort that the RBA is done for the cycle. A higher NZD/AUD cross rate goes against our high conviction view that the cross must ultimately fall, given the backdrop of NZ's significant economic underperformance versus Australia, but clearly near-term rate differentials are delaying that process.

In the domestic rates market, NZDM had a better tender outcome than we've seen over the past few weeks, with bid-cover ratios for the nominal bonds ranging from 2.2 for the longest dated bonds on offer (2037s) to 3.3 for the shortest (2031s) and the two shorter maturities selling 1-2bps below pre-market mids. Rates fell further into the close to see rates little changed on the day, with the 10-year rate at 4.76%.

This was an outperformance relative to the swap market where rates closed 2bps higher across the curve. This saw the 2-year swap rate close at 5.02%, extending the selloff this week to 28bps, a reflection of global forces and flow-through from the stronger than expected NZ labour market reports on Wednesday. OIS pricing suggests a 15% chance of a 25bps hike at the RBNZ's meeting at the end of the month after adjusting the OIS pricing for the effect of daily compounding.

In the day ahead, RBA Governor Bullock will be testifying in front of lawmakers where she is likely to repeat the line that a further tightening in monetary policy can't be ruled out, even if the market sees more chance of a rate cut than hike at the next meeting. Tonight sees Canadian labour market data and as noted the US CPI revisions, which could move the market if they are significant.

jason.k.wong@bnz.co.nz

Coming Up

	Period	Cons.	Prev.	NZT
AU	RBA Governor Bullock gives testimony to lawmakers			11:30
CA	Unemployment rate (%)	Jan	5.9	5.8 02:30
US	CPI revisions			

Source: Bloomberg, BNZ

Currencies							Equities				Commodities		
Indicative overnight ranges (*)					Other FX		Major Indices				Price (Near futures, except CRB)		
	Last	% Day	Low	High		Last % Day		Last	% Day	% Year		Last	Net Day
NZD	0.6093	-0.3	0.6079	0.6115	CHF	0.8742 -0.0	S&P 500	4,994	-0.0	21.3	Oil (Brent)	81.42	+2.8
AUD	0.6490	-0.5	0.6481	0.6525	SEK	10.474 +0.0	Dow	38,611	-0.2	13.7	Oil (WTI)	75.97	+2.9
EUR	1.0776	+0.0	1.0742	1.0789	NOK	10.619 +0.3	Nasdaq	15,788	+0.2	32.6	Gold	2030.7	-0.2
GBP	1.2618	-0.1	1.2572	1.2637	HKD	7.821 +0.0	Stoxx 50	4,711	+0.7	11.9	HRC steel	945.0	-0.9
JPY	149.33	+0.8	148.58	149.48	CNY	7.197 +0.0	FTSE	7,595	-0.4	-3.7	CRB	270.4	+0.5
CAD	1.3467	+0.0			SGD	1.347 +0.3	DAX	16,964	+0.2	10.1	Wheat Chic.	597.0	-1.8
NZD/AUD	0.9388	+0.1			IDR	15,635 -0.6	CAC 40	7,666	+0.7	7.7	Sugar	24.03	+0.6
NZD/EUR	0.5654	-0.4			THB	35.90 +0.8	Nikkei	36,863	+2.1	33.6	Cotton	88.65	+0.2
NZD/GBP	0.4829	-0.2			KRW	1,328 +0.0	Shanghai	2,866	+1.3	-12.4	Coffee	186.1	-0.9
NZD/JPY	90.99	+0.5			TWD	31.36 +0.1	ASX 200	7,639	+0.3	2.0	WM powder	3445	+0.0
NZD/CAD	0.8205	-0.3			PHP	55.91 -0.1	NZX 50	11,872	-0.7	-2.0	Australian Futures		
NZ TWI	71.52	-0.1					VIX Index	13.05	+1.7	-33.5	3 year bond	96.35	-0.02
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	5.58	4.31	3.80	USD	4.16	0.04	15-May-26	4.83	0.01	BKBM 1-mth	5.61	0.01
AUD	4.35	4.34	3.99	4.40	AUD	4.11	0.02	15-Apr-27	4.67	0.01	BKBM 3-mth	5.70	0.02
NZD	5.50	5.70	5.02	4.55	NZD	4.76	-0.00	15-May-28	4.58	0.01	1 year	5.51	0.02
EUR	4.00	3.90	3.09	2.74	GER	2.35	0.04	20-Apr-29	4.56	0.01	2 year	5.02	0.02
GBP	5.25	5.32	4.48	3.83	GBP	4.05	0.06	15-May-30	4.60	0.01	3 year	4.71	0.02
JPY	-0.01	-0.03	0.25	0.91	JPY	0.71	-0.01	15-May-31	4.65	0.00	5 year	4.48	0.02
CAD	5.00	5.37	4.57	3.89	CAD	3.55	0.07	15-May-32	4.69	0.00	7 year	4.48	0.02
						NZ Inflation-Indexed Bonds		14-Apr-33	4.71	-0.00	10 year	4.55	0.02
						Sep-30	2.51 0.04	15-May-34	4.76	-0.00	15 year	4.69	0.02
						Sep-35	2.82 0.04	15-May-37	4.91	-0.00			
						Sep-40	3.06 0.04	15-May-41	5.01	0.00			
								15-May-51	5.00	-0.00			

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

Rates are as of: NZT 06:52

Source: Bloomberg

NZD exchange rates

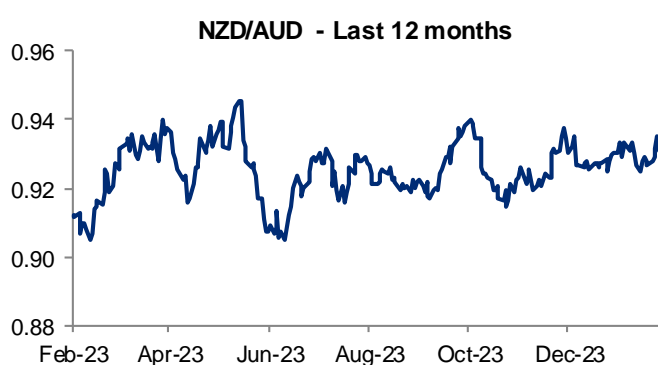
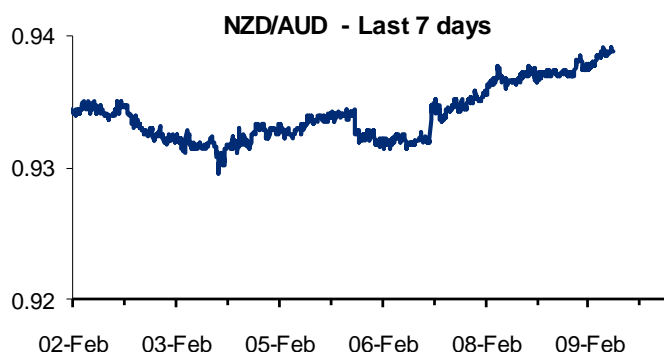
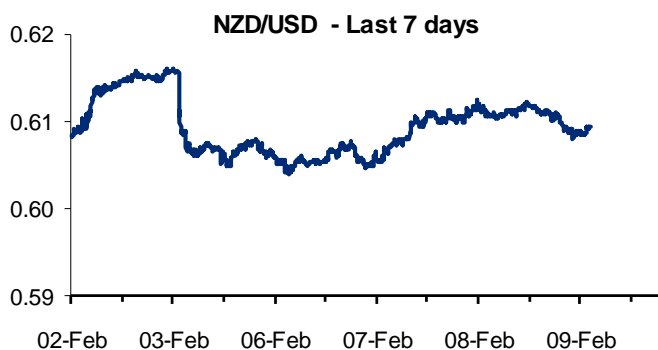
9/02/2024 6:52 am		Prev. NY close
USD	0.6093	0.6113
GBP	0.4829	0.4842
AUD	0.9388	0.9376
EUR	0.5654	0.5675
JPY	90.99	90.58
CAD	0.8205	0.8230
CHF	0.5327	0.5345
DKK	4.2154	4.2320
FJD	1.3711	1.3799
HKD	4.7655	4.7798
INR	50.54	50.72
NOK	6.4704	6.4691
PKR	170.18	170.80
PHP	34.07	34.21
PGK	2.2769	2.2767
SEK	6.3819	6.4023
SGD	0.8208	0.8212
CNY	4.3849	4.3982
THB	21.82	21.75
TOP	1.4216	1.4452
VUV	73.80	74.11
WST	1.6624	1.6649
XPF	67.25	67.61
ZAR	11.5562	11.5545

NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.06	0.24
3 Months	-0.91	-0.31
6 Months	-6.12	-4.32
9 Months	-13.43	-11.17
1 Year	-22.48	-18.48

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-8.62	-7.95
3 Months	-27.45	-26.10
6 Months	-54.84	-50.67
9 Months	-77.78	-72.47
1 Year	-98.83	-89.74



Contact Details

BNZ Research

Stephen Toplis

Head of Research
+64 4 474 6905

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 2, BNZ Place
1 Whitmore 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.