

# Research Markets Today

10 October 2023

## Events Round-Up

GE: Industrial production (m/m%), Aug: -0.2 vs. -0.1 exp.

## Good Morning

Conflict between Israel and Hamas that escalated over the weekend gripped the market's attention as the new week kicked off. Weaker risk appetite initially enveloped markets, with asset prices initially moving in their typical direction after such a major geopolitical event – global equities weaker, oil prices higher, and bond markets receiving a safe-haven bid alongside the USD. But not all moves have been sustained, with the S&P500 now higher and the NZD surprisingly recovering up through 0.60.

Market focus has been on the implications of renewed geopolitical risks in the Middle East after Hamas attacked Israel over the weekend. Israel has declared war on Hamas, mobilised 300,000 reservists and has begun a “complete siege” of the Gaza strip. PM Netanyahu said “we are just getting started...we are going to change the Middle East”. Conflict has widened, with Israel also battling against militants on the Lebanon-Israel border.

As Asia opened for business S&P500 futures fell, US Treasury futures rallied, oil prices spiked up as much as 5%, risk currencies like the NZD and AUD fell, and the safe-haven USD rallied.

Not all moves have been sustained. While the S&P500 opened down ½%, it rallied back into positive territory and now shows a modest gain for the day. The Euro Stoxx 600 index fell 0.3%.

The small equity market reaction owes in part to lower global rates. US bond markets are closed for a public holiday, but Treasury futures have rallied strongly and are down about an equivalent 12bps for the 10-year rate. European 10-year rates are down in the order of 10-11bps.

Fed-speak will be cranked up this week with a number of scheduled speeches. Dallas Fed President Logan said that higher long-term rates mean less need for rate hikes viz “...if term premiums rise, they could do some of the work of cooling the economy for us, leaving less need for additional monetary policy tightening”. That looked like a dovish shift from an FOMC member who is seen to be more on the hawkish side of the spectrum, although she

added that “to the extent that strength in the economy is behind the increase in long-term interest rates”, the Fed may need to tighten more.

Fed vice-Chair Jefferson said that the Fed is “in a position to proceed carefully in assessing the extent of any additional policy firming that may be necessary...I will remain cognisant of the tightening in financial conditions through higher bond yields and will keep that in mind as I assess the future path of policy”. His comments came out at 6:30am and seem to have been a factor in lower rates, stronger equities and a weaker USD as we go to print.

Oil prices are up around 4%, with Brent crude trading just below USD88 per barrel after peaking at USD89. This is a muted reaction to the weekend events in the context of the more than 11% fall in prices last week. Whether oil pushes higher will depend on whether Iran is brought into the war. Intelligence reports suggest that Iran helped plan Hamas's surprise attack on Israel but Iran's representative to the UN denied that the country was involved in the attack.

In currency markets, the Israeli shekel has been the biggest casualty, falling over 2½% despite its central bank saying it would be prepared to sell as much as \$30b of foreign reserves to defend the currency and extend up to \$15b through swap mechanisms. For the majors, apart from a 1.1% gain in NOK, supported by higher oil prices, net currency moves have been modest and orderly.

JPY and CHF have received safe-haven bids, with USD/JPY down 0.4% to 148.50 and USD/CHF down 0.4%. CAD has been supported by higher oil prices EUR and GBP show small falls. After a week-long holiday in China, the PBoC was back to its old tricks in setting a CNY reference rate some distance from market pricing. USD/CNH and USD/CNY both trade with a 7.29 handle.

The most surprising move has been support for the NZD. It opened the week lower and traded down to a low of 0.5961 in late Asia trading, but has recovered to around 0.6015, the Jefferson's dovish comments adding to the earlier move up through 0.60. With a smaller gain for the AUD, NZD/AUD has pushed up through 0.94. The only vaguely positive news on the NZD was Fonterra's 50c lift to the mid-point of its projected milk payout range to \$7.25, but futures pricing has been above for level for several weeks and currently sits just under \$7.90.

Domestic rates were kicked around by global forces yesterday, with NZGBs finishing the day down 1-5bps with some curve flattening. In the swaps market, the 2-year rate was unchanged at 5.72%, unwinding a fall earlier in the session and the 10-year rate fell 1bp to 5.33%. The global bond rally overnight will support a shift down in yields on the open today, with the Australian 10-year bond future currently down 10bps in yield terms from the NZ close.

In the day ahead, there are only second-tier data releases, with the market’s focus likely to remain on the conflict in the Middle East. Fed speakers continue to hog the wires and Governor Waller, one of the more respected FOMC

members by the market, speaks early tomorrow morning on monetary policy.

[jason.k.wong@bnz.co.nz](mailto:jason.k.wong@bnz.co.nz)

**Coming Up**

		Perioc	Cons.	Prev.	NZT
AU	Westpac consumer confidence	Oct		79.7	12:30
AU	NAB business conditions	Sep		13	13:30
US	NFIB small bus. optimism	Sep	91.0	91.3	23:00
US	Fed's Waller speaks at monetary policy conference				06:00

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	0.6018	+0.5	0.5961	0.6019	CHF	0.9057	-0.5	S&P 500	4,329	+0.5	18.9	Oil (Brent)	87.94	+3.9	
AUD	0.6402	+0.3	0.6343	0.6404	SEK	10.968	+0.0	Dow	33,569	+0.5	14.6	Oil (WTI)	86.16	+4.0	
EUR	1.0564	-0.2	1.0520	1.0566	NOK	10.797	-1.1	Nasdaq	13,479	+0.4	26.5	Gold	1849.5	+0.9	
GBP	1.2234	-0.0	1.2163	1.2235	HKD	7.830	-0.0	Stoxx 50	4,113	-0.8	21.8	HRC steel	701.0	-0.6	
JPY	148.52	-0.5	148.45	149.20	CNY	7.293	-0.1	FTSE	7,492	-0.0	7.2	CRB	276.9	+0.8	
CAD	1.3600	-0.5			SGD	1.366	+0.0	DAX	15,128	-0.7	23.3	Wheat Chic.	605.5	+1.3	
NZD/AUD	0.9400	+0.2			IDR	15,692	+0.5	CAC 40	7,021	-0.5	19.7	Sugar	27.18	+1.6	
NZD/EUR	0.5697	+0.7			THB	36.99	+0.2	Nikkei	30,995	-0.3	14.3	Cotton	86.85	+0.7	
NZD/GBP	0.4919	+0.5			KRW	1,352	+0.1	Shanghai	3,097	-0.4	4.1	Coffee	146.1	+0.2	
NZD/JPY	89.38	-0.0			TWD	32.13	-0.5	ASX 200	6,970	+0.2	4.5	WM powder	3150	+1.3	
NZD/CAD	0.8184	+0.0			PHP	56.97	+0.6	NZX 50	11,205	-0.7	2.6	<b>Australian Futures</b>			
NZ TWI	71.44	+0.4										3 year bond	96.04	0.05	
												10 year bond	95.56	0.15	
<b>Interest Rates</b>															
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	5.67	4.93	4.49	USD	4.80	0.00	15-Apr-25	5.71	-0.01		1 year	5.90	0.00	
AUD	4.10	4.14	4.19	4.76	AUD	4.52	-0.02	15-Apr-27	5.46	-0.01		2 year	5.72	0.00	
NZD	5.50	5.70	5.72	5.33	NZD	5.51	-0.02	15-May-28	5.41	-0.01		5 year	5.34	-0.01	
EUR	4.00	3.98	3.68	3.35	GER	2.77	-0.11	15-May-31	5.47	-0.02		7 year	5.30	-0.02	
GBP	5.25	5.41	5.10	4.38	GBP	4.48	-0.10	14-Apr-33	5.51	-0.02		10 year	5.33	-0.01	
JPY	-0.02	-0.03	0.20	1.00	JPY	0.81	0.00	15-May-41	5.72	-0.04		15 year	5.40	-0.02	
CAD	5.00	5.56	5.40	4.61	CAD	4.16	0.02	15-May-51	5.70	-0.05					

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

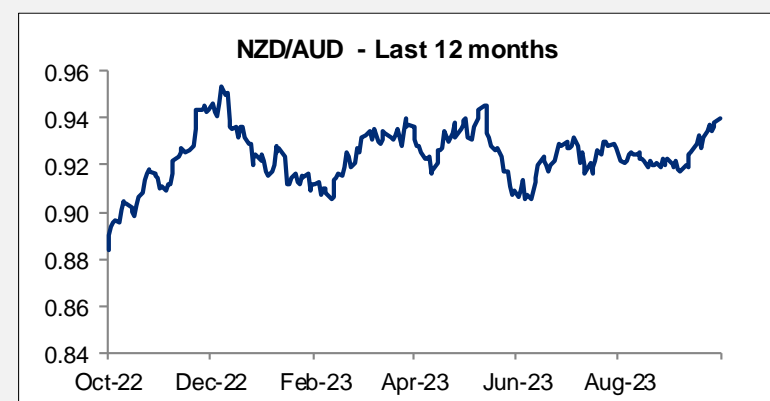
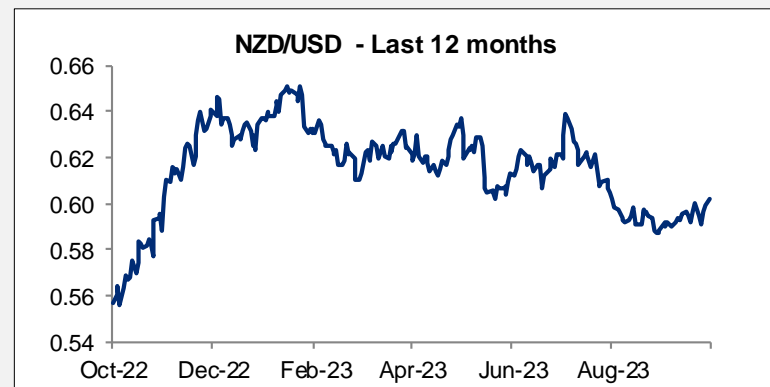
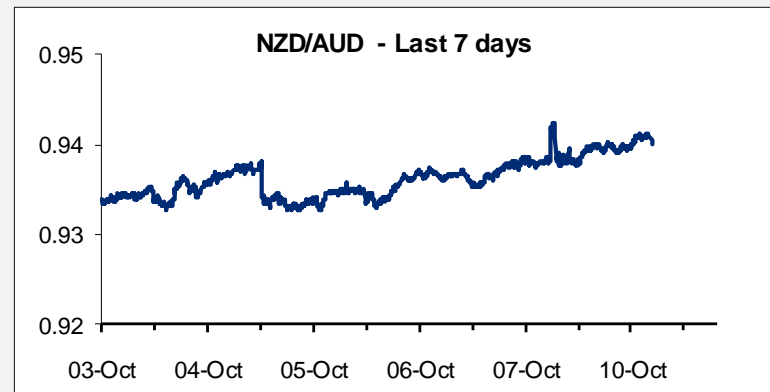
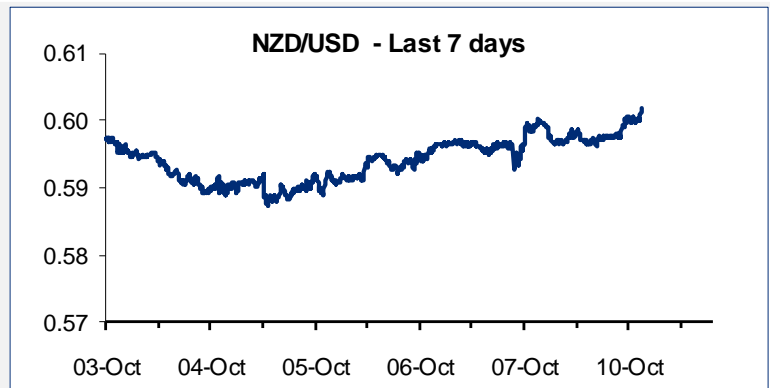
\*\* All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 07:02

Source: Bloomberg

**NZD exchange rates**

9/10/2023	7:02 am	Prev. NY close
USD	0.6018	0.5990
GBP	0.4919	0.4895
AUD	0.9400	0.9380
EUR	0.5697	0.5658
JPY	89.38	89.44
CAD	0.8184	0.8183
CHF	0.5451	0.5450
DKK	4.2474	4.2198
FJD	1.3759	1.3611
HKD	4.7120	4.6911
INR	50.11	49.86
NOK	6.4979	6.5391
PKR	170.14	169.89
PHP	34.28	33.92
PGK	2.2207	2.1949
SEK	6.6004	6.5665
SGD	0.8219	0.8177
CNY	4.3887	4.3715
THB	22.33	22.18
TOP	1.4153	1.4025
VUV	73.93	73.69
WST	1.6653	1.6493
XPF	68.02	67.65
ZAR	11.6470	11.5607



**NZD/USD Forward Points**

	BNZ buys NZD	BNZ sells NZD
1 Month	0.12	0.53
3 Months	0.65	1.25
6 Months	-0.74	0.74
9 Months	-7.14	-3.24
1 Year	-17.51	-13.02

**NZD/AUD Forward points**

	BNZ buys NZD	BNZ Sells NZD
1 Month	-11.39	-10.43
3 Months	-32.45	-30.96
6 Months	-62.59	-58.75
9 Months	-95.13	-86.21
1 Year	-128.44	-117.16

# 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 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.