

Research Markets Today

11 April 2024

Events Round-Up

NZ: RBNZ official cash rate (%), Apr: 5.5 vs. 5.5 exp.
 US: CPI (m/m%), Mar: 0.4 vs. 0.3 exp.
 US: CPI ex food, energy (m/m%), Mar: 0.4 vs. 0.3 exp.
 US: CPI (y/y%), Mar: 3.5 vs. 3.4 exp.
 US: CPI ex food, energy (y/y%), Mar: 3.8 vs. 3.7 exp.
 CA: Bank of Canada policy rate (%), Apr: 5.0 vs. 5.0 exp.

Good Morning

Stronger than expected US CPI data, contributed to a reassessment about how soon the US Federal Reserve might cut rates, and prompted large moves across global asset markets. US treasury yields surged higher contributing to broad based gains in the US dollar. The higher rates backdrop undermined equities. The S&P fell more than 1% to retest the lows near 5140 from last week.

US inflation rose 0.4% in March, above expectations for a rise of 0.3%. Core inflation rose 0.4% which was also above median estimates for a 0.3% rise. Headline inflation advanced 3.5% on an annual basis while core increased 3.8%. This is the third consecutive upside surprise and doesn't provide confidence that inflation is moving sustainably back to the central bank's target.

The information content from the March FOMC minutes has been superseded by the inflation data. The minutes revealed almost all policy makers expected it would be appropriate to ease policy this year, but the question is by how much, given uncertainty about the inflation trajectory. Fed officials discussed slowing the pace of quantitative tightening, but no decisions were made at the meeting.

Persistent price pressures will likely delay Fed rate cuts until later in 2024. The market is pricing about 40bps of easing by the Fed for this year, well below the 75bps median projection by policy makers at the March FOMC. The market has pushed back the first 25bps rate cut to November, from July ahead of the inflation data.

US treasury yields moved sharply higher across the curve. 10-year yields increased 19bps to 4.55%, fresh highs for the year, and more than 70bps above January levels. The curve flattened amid the sell off. The 10y/30y UST spread fell to 8bps, the lowest level since December. The US\$39 billion 10-year auction was weak despite the higher yields

on offer. The auction tailed by more than 3bps and attracted the lowest bid-cover ratio since December.

In currency markets, the US dollar gained the most since January. The dollar index (DXY) increased more than 1% to reach fresh highs for the year. The Yen fell to its weakest level against the dollar since 1990 which increases the chance of Japanese policy makers stepping in to provide support. The NZD and AUD were the weakest G10 currencies, both falling more than 1.5%, since the local close yesterday. NZD/USD fell sharply, from 0.6080 ahead of the data to below 0.5970, before staging a modest recovery. The NZD is weaker on the key cross rates except against the AUD.

The RBNZ held the Official Cash Rate steady at 5.5% at the Monetary Policy Review (MPR) yesterday. The statement, accompanying the expected 'on hold' decision, indicated there is little change in the Bank's assessment of the economy and inflation outlook relative to the February Monetary Policy Statement. The Committee is 'confident that maintaining the OCR at a restrictive period for a sustained period' will return inflation to target this year.

There was limited reaction across NZ fixed income to the RBNZ MPR in the local session yesterday. Yields moved lower largely reflecting moves in offshore markets. The curve flattened with 2-year swap rates falling 5bps to 4.92% and 10-year rates declined 9bps to 4.48%. There were similar magnitude moves in the government curve with 10-year NZGB yields falling 8bps to 4.69%. Australian 10-year bond futures are ~13bps higher in yield overnight, suggesting an upward move for NZ yields on the open.

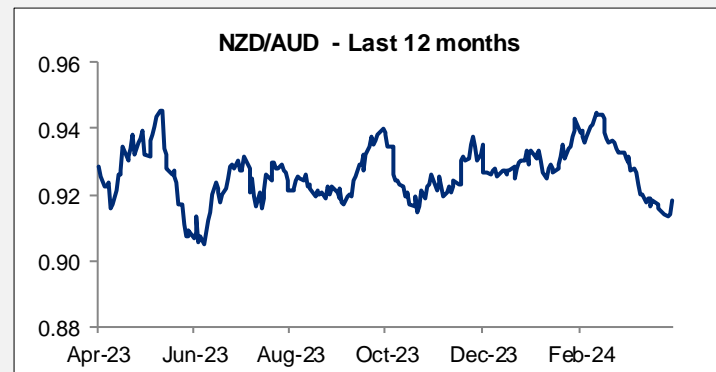
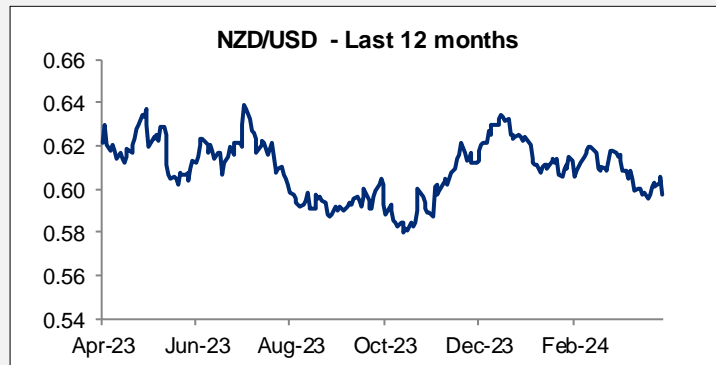
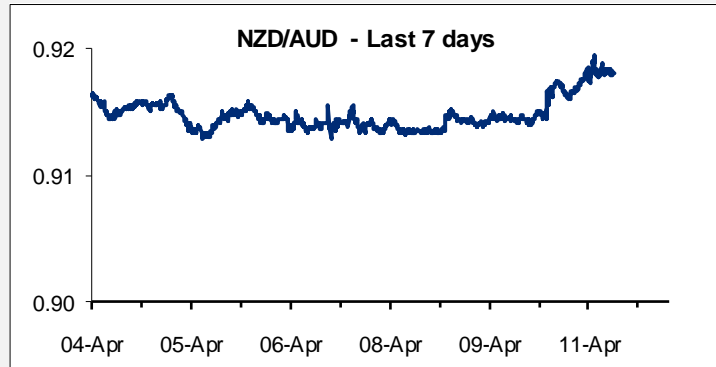
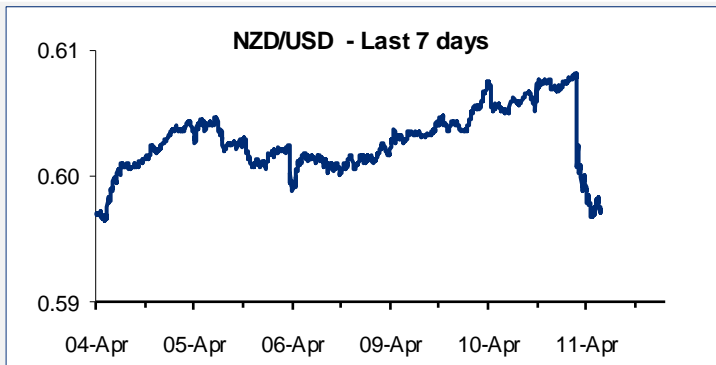
New Zealand Debt Management are tendering NZ\$500 million of nominal NZGBs today split across Apr-29 (\$275m), May-32 (\$175m) and May-51 (\$50m). Long end bonds are being tendered for the first time since the beginning of March, suggesting the congestion in the long end after the May-2054 syndication, has cleared.

In the day ahead, China releases CPI and PPI data. The European Central Bank is unanimously expected to leave rates on hold and the focus will be on the press conference and the path of easing going forward. PPI data for March and weekly jobless claims are released in the US.

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NZD exchange rates

11/04/2024	6:46 am	Prev. NY close
USD	0.5975	0.6060
GBP	0.4764	0.4780
AUD	0.9180	0.9142
EUR	0.5561	0.5582
JPY	91.36	91.97
CAD	0.8174	0.8224
CHF	0.5457	0.5475
DKK	4.1483	4.1635
FJD	1.3500	1.3723
HKD	4.6816	4.7454
INR	49.71	50.49
NOK	6.4715	6.4700
PKR	166.15	168.54
PHP	33.75	34.25
PGK	2.2590	2.2902
SEK	6.4025	6.3952
SGD	0.8089	0.8149
CNY	4.3225	4.3828
THB	21.73	22.04
TOP	1.3924	1.4215
VUV	72.08	73.28
WST	1.6227	1.6575
XPF	66.25	66.72
ZAR	11.2142	11.1871



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.06	0.33
3 Months	0.16	0.79
6 Months	1.22	2.31
9 Months	2.38	5.64
1 Year	3.50	6.50

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-8.69	-7.82
3 Months	-24.35	-22.96
6 Months	-46.65	-43.62
9 Months	-65.67	-58.54
1 Year	-82.80	-74.79

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