

Research Markets Today

11 October 2023

Events Round-Up

AU: Westpac consumer confidence, Oct: 82.0 vs. 79.7 prev.

AU: NAB business conditions, Sep: 11 vs. 14 prev.

US: NFIB small bus. optimism, Sep: 90.8 vs. 91.0 exp.

Good Morning

The market is currently taking a sanguine view of the war underway between Israel and Hamas, with oil trading sideways, sustaining the near-4% gain yesterday, equities gaining ground and no evidence of a safe-haven bid in currencies.

Dominating the market's focus is the seemingly coordinated message from Fed officials that the recent tightening in financial conditions is doing some of the work to support a weaker inflation trajectory, and is something the Fed is watching closely as it mulls on whether further policy tightening is required – communicated by the Fed's Daly late last week and backed up by Logan and Jefferson earlier this week.

The market now prices just 7bps of hikes cumulatively through to December, down from 12bps at the end of last week, reducing the chance of another Fed hike this year to about 30% from near-50%. As well as the Fed's communications, the market is also likely noting the uncertainty that renewed geopolitical risk poses for the outlook as a factor in whether the Fed will tighten again.

After the US bond market's closure on Monday, Treasury yields opened the Asian session much lower in yield, as forewarned by pricing in the futures markets, with the 10-year rate falling 18bps to 4.62%. Some of that move faded through to the early hours of this morning, with an overnight high of 4.71%, but as we go to print, it is back down to 4.64%, little changed from the NZ close.

European yields already captured the initial market impact from the Israeli war in the previous session. Germany's 10-year rate shows little net change for today's session, sustaining the 11bps fall on Monday, while the UK's 10-year rate has pushed down another 5bps.

The "Fed might be done" narrative alongside lower US Treasury yields have supported the equity market, with the

S&P500 currently up 0.8%, adding to yesterday's 0.6% lift. The Euro Stoxx 600 index closed up a chunky 2%.

In currency markets, the safe-haven bid that was evident on Monday has disappeared. USD/JPY is flat around 148.70 and the USD itself is broadly weaker. The DXY index is down 0.3%, tentatively supporting a case that the USD might now be past its peak, with the change in market sentiment towards the Fed being a crucial factor in that view. Of course, how the war plays out in Israel, and whether Iran is drawn into the conflict, still overhangs the market.

The NZD has sustained its move above 0.60, with an overnight dip to just below 0.60 meeting support and the currency currently near 0.6030, up slightly from this time yesterday. NZD/AUD is flat around 0.94 and has fallen slightly against GBP and EUR, with those currencies seeing modest gains against the USD to 1.2270 and 1.06 respectively.

In economic news, the IMF's latest forecasts showed little revision its global growth outlook, with GDP projected to slow from 3.5% last year to 3.0% in 2023 and 2.9% in 2024, well below the 2000-2019 average of 3.8%. There was more change to its inflation outlook, with a steady decline from 8.7% last year to 6.9% in 2023 and 5.8% in 2024, with the forecast for 2023 revised up 0.1ppt and for 2024 up a chunky 0.6ppts. Inflation is not expected to return to target to 2025 in most countries, underscoring the need of central banks to keep policy tight.

The second-tier economic releases overnight aren't worth commenting on, but there was an interesting report on Bloomberg on the revision at the end of last month on estimates of US household savings. Revised data showed a much higher buffer than previously reported. The report noted that estimates from Citigroup, JP Morgan and UBS now put the savings buffer close to \$1 trillion or more, reducing the chance of recession and playing to the soft-landing for the US economy narrative.

Bloomberg reported that China is weighing up a fresh stimulus package in the order of at least 1 trillion yuan (USD137b), that would take the budget deficit well above the 3% of GDP cap. Spending would be directed to infrastructure projects and such looser fiscal policy would mark a shift in stance by Beijing to support its economy. Earlier in the session, one of China's largest property

developers, Country Garden Holdings, warned that it was on the verge of defaulting on debt payments. USD/CNH dipped to as low as 7.27 yesterday afternoon but is back to 7.29, flat for the day.

The backdrop of lower global rates supported lower NZ rates, with NZGBs closing the day down 6-7bps and swaps down 6-9bps. There has been little net change in Australian 10-year futures overnight.

In the day ahead, NZ net migration data will be released this morning. US PPI inflation data tonight will be of interest, coming a day ahead of the key US CPI report. The market anticipates a friendly 0.2% m/m increase for the PPI ex food and energy index, seeing a tick higher in the annual increase to 2.3%. Minutes of the FOMC's

September meeting, where the Fed adopted a "hawkish hold" with two of the four previously projected rate cuts removed from the projection, will be released at 7am tomorrow.

jason.k.wong@bnz.co.nz

Coming Up

		Perioc	Cons.	Prev.	NZT
NZ	Net migration	Aug		5786	10:45
US	PPI ex food, energy (m/m%)	Sep	0.2	0.2	01:30
US	PPI ex food, energy (y/y%)	Sep	2.3	2.2	01:30
US	FOMC meeting minutes	Sep			07:00

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	0.6032	+0.1	0.5999	0.6044	CHF	0.9050	-0.2	S&P 500	4,367	+0.7	20.9	Oil (Brent)	87.75	-0.4	
AUD	0.6416	+0.1	0.6390	0.6432	SEK	10.877	-0.8	Dow	33,795	+0.6	15.7	Oil (WTI)	86.02	-0.4	
EUR	1.0598	+0.3	1.0554	1.0620	NOK	10.813	+0.3	Nasdaq	13,588	+0.8	28.9	Gold	1861.0	+0.6	
GBP	1.2273	+0.3	1.2212	1.2292	HKD	7.819	-0.1	Stoxx 50	4,205	+2.3	25.3	HRC steel	696.0	-0.7	
JPY	148.74	+0.2	148.53	149.10	CNY	7.294	+0.0	FTSE	7,628	+1.8	9.6	CRB	280.1	+1.2	
CAD	1.3594	+0.0			SGD	1.364	-0.1	DAX	15,424	+2.0	25.7	Wheat Chic.	591.3	-2.1	
NZD/AUD	0.9401	+0.0			IDR	15,739	+0.3	CAC 40	7,162	+2.0	22.6	Sugar	27.05	-0.5	
NZD/EUR	0.5692	-0.1			THB	36.61	-1.0	Nikkei	31,747	+2.4	20.2	Cotton	85.64	-1.6	
NZD/GBP	0.4915	-0.1			KRW	1,350	-0.2	Shanghai	3,075	-0.7	3.2	Coffee	147.5	+1.0	
NZD/JPY	89.72	+0.3			TWD	32.13	-0.5	ASX 200	7,041	+1.0	6.0	WM powder	3150	+0.0	
NZD/CAD	0.8200	+0.2			PHP	56.88	-0.2	NZX 50	11,293	+0.8	3.1	Australian Futures			
NZ TWI	71.53	+0.1										3 year bond	96.07	0.03	
												10 year bond	95.56	-0.01	
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					
USD	5.50	5.67	4.87	4.35	USD	4.65	-0.15	15-Apr-25	5.65	-0.06	1 year	5.85	-0.05		
AUD	4.10	4.14	4.19	4.75	AUD	4.46	-0.06	15-Apr-27	5.40	-0.06	2 year	5.65	-0.06		
NZD	5.50	5.68	5.65	5.27	NZD	5.44	-0.06	15-May-28	5.35	-0.06	5 year	5.25	-0.09		
EUR	4.00	3.98	3.69	3.35	GER	2.78	0.00	15-May-31	5.41	-0.06	7 year	5.22	-0.08		
GBP	5.25	5.41	5.07	4.34	GBP	4.43	-0.05	14-Apr-33	5.44	-0.06	10 year	5.27	-0.06		
JPY	-0.03	-0.03	0.19	0.97	JPY	0.78	-0.02	15-May-41	5.66	-0.07	15 year	5.34	-0.06		
CAD	5.00	5.56	5.28	4.47	CAD	4.01	-0.15	15-May-51	5.63	-0.06					

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

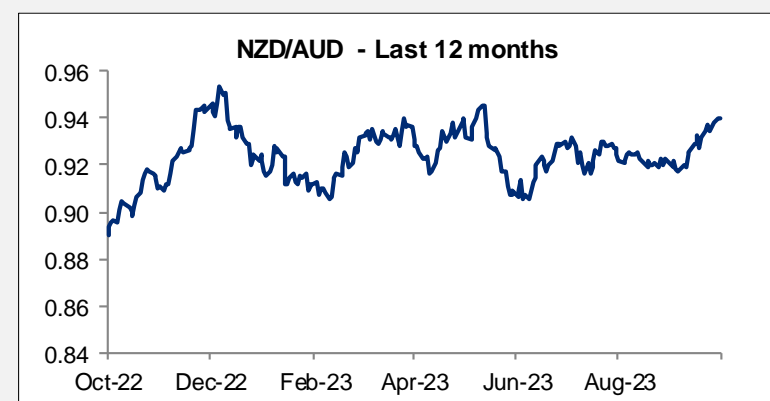
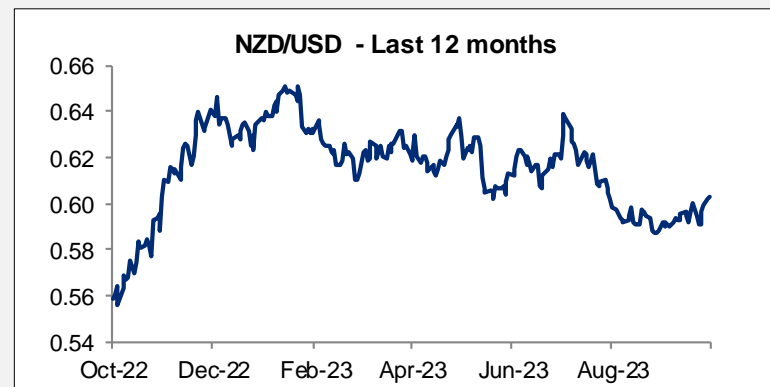
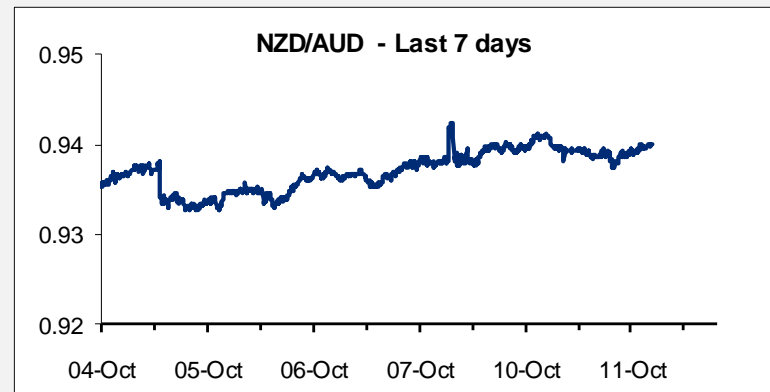
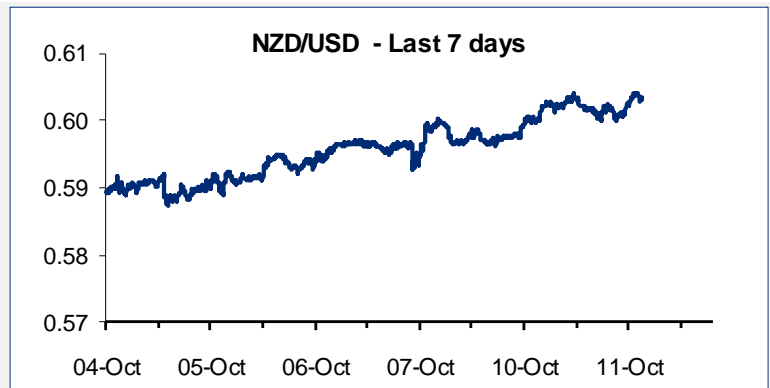
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:55

Source: Bloomberg

NZD exchange rates

10/10/2023 6:55 am	Prev. NY close
USD	0.6032
GBP	0.4915
AUD	0.9401
EUR	0.5692
JPY	89.72
CAD	0.8200
CHF	0.5459
DKK	4.2437
FJD	1.3687
HKD	4.7166
INR	50.22
NOK	6.5222
PKR	169.20
PHP	34.30
PGK	2.2258
SEK	6.5610
SGD	0.8228
CNY	4.3995
THB	22.16
TOP	1.4074
VUV	73.84
WST	1.6435
XPF	68.12
ZAR	11.5016



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	0.22	0.55
3 Months	0.87	1.46
6 Months	0.13	1.28
9 Months	-5.12	-2.32
1 Year	-13.40	-10.40

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-11.15	-10.43
3 Months	-32.33	-30.95
6 Months	-62.37	-59.34
9 Months	-93.20	-86.73
1 Year	-124.25	-114.62

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

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