

Research Markets Today

12 April 2024

Events Round-Up

CH: PPI (y/y%), Mar: -2.8 vs. -2.8 exp.

CH: CPI (y/y%), Mar: 0.1 vs. 0.4 exp.

EC: ECB deposit facility rate, Apr: 4.0 vs. 4.0 exp.

US: PPI ex food and energy (m/m%), Mar: 0.2 vs. 0.2 exp.

US: PPI ex food and energy (y/y%), Mar: 2.4 vs. 2.3 exp.

US: Initial jobless claims, wk to Apr 6: 211 vs. 215 exp.

Good Morning

Markets have settled after the shock from the hot CPI print the previous night, helped in part by a more benign PPI print. US Treasury yields show only small movements, with a modestly steeper curve led by a retracement in the 2-year rate. The 10-year Treasury found support with yields just under 4.6% overnight. US equities have bounced back. The ECB's in-line policy update had little impact on the market, while the NZD and AUD have outperformed with the NZD close to 0.60.

US PPI data showed the headline figure coming in a tenth softer than expected at 0.2% m/m and 2.1% y/y and the ex-food and energy measure in line at 0.2% m/m, but revisions seeing the annual figure a tick higher than expected at 2.4%. So overall, close to expectations and somewhat of a relief after yesterday's positive surprise for the CPI figures (with particular strength in the services component). Combining the CPI and PPI figures, the consensus seems to be that the key core PCE deflator will come in at 0.3% m/m, with a chance that rounding takes it down to 0.2%, bringing the annual figure down to 2.7%.

Separately, initial jobless claims fell 11k last week to 211k, just below expectations, but with seasonal factors around the timing of Easter still likely playing a role. The data continue to show a lack of positive trend compared to other labour market data which are warning regarding rising job layoffs.

Overall, recent resilience in inflation and labour market data mean a June Fed rate cut is now unlikely unless there is a significant negative shock over the next two months, a July hike is a line-ball call, and the market has settled on September as the most likely timing for a first rate cut this cycle. Just 44bps of cuts are priced for this year (compared to 65bps as at the end of last week), so less than two full cuts.

Consistent with the recent changes in market pricing, Boston Fed President Collins said recent data have eased concerns about an "imminent need" to adjust interest rates and "this also implies that less easing of policy this year than previously thought may be warranted". NY Fed President Williams said he expects "inflation to continue its gradual return to 2%, although there will likely be bumps along the way, as we've seen in some recent inflation readings", adding if the economy performs as expected, it will make sense for the Fed to start to "dial back policy restraint" by cutting its policy interest rate.

There was some volatility in US Treasury yields following the data releases but the net change in rates has been small, with the 2-year rate down 3bps for the day and the 10-year rate up 2bps to 4.56%, the market finding some support at new 2024 highs of 4.59%.

The other main event overnight was the ECB's policy update. As widely expected, the Bank kept policy rates on hold and still seems comfortable in signalling a June rate cut, following an updated assessment of the inflation outlook, even if the official line is that the Bank is not pre-committing to any particular rate view. President Lagarde noted that a "very large majority" of members wanted to wait for June. Bloomberg reported that as many as five Governing Council members favoured an immediate rate cut.

Market reaction to the ECB update was muted, with only modest changes in yields. The market prices 22bps of cuts for the June meeting and about 2½ full rate cuts by the end of the year, 24bps more than currently priced for the Fed.

EUR has been on the soft side of the ledger but is flat compared to this time yesterday and down just 0.2% overnight to 1.0725. The yen is also soft, but with only a small fall, seeing USD/JPY tracking just over 153, a level not seen since 1990. Yesterday, Japan's top currency official, Kanda, fired another verbal shot aimed at speculators, threatening intervention and calling yen weakness as "significant" but didn't declare it as "excessive". CNY/JPY rose to a fresh 31-year high, which had the market focused on the PBoC's reference rate fix. The central bank fixed the rate on the strong side near the limit of the policy range.

The NZD and AUD have outperformed over the past 24 hours, recovering some of their losses since post the US CPI report Wednesday night. The NZD traded an overnight high close to 0.6015 and currently trades near 0.60. The AUD has recovered to 0.6540 and NZD/AUD is a touch

softer at 0.9170. Other NZD crosses are stronger, with close to 0.5% gains for NZD/EUR and NZD/JPY to just under 0.56 and just under 92 respectively.

The stronger NZD and AUD have come alongside a lift in risk appetite, with the VIX index back down to 15 and a bounce-back in US equities, with the S%P500 currently up 1% following the near 1% fall yesterday. The US earnings season kicks off from tonight.

In the oil market, yesterday’s narrative was rising geopolitical risk helping push Brent crude back up towards USD91 per barrel. Bloomberg reported the US and its allies believed major missile or drone strikes by Iran or its proxies against military and government targets in Israel were imminent, in what would mark a significant widening of the six-month-old conflict. The potential assault, possibly using high-precision missiles, was said may happen in the coming days. Overnight, the oil market has settled back down with focus on higher US crude stockpiles and Brent crude is back just below USD90.

Yesterday, the domestic rates market was hit by the large offshore bond selloff following the hotter US CPI print, driving NZGB yields up 11-15bps, with a flattening bias, with rates breaking back above 5% attracting bond investors for the ultra-long bonds – this resulting in some outperformance on a cross-market basis and relative to swap at the longer end of the curve. The 10-year NZGB was

up 13bps to 4.81% against a 16bps lift in the 10-year swap rate. The 2-year swap rate closed above 5% for the first time in over a month, rising 14bps to 5.06%.

On the calendar today, NZ data releases include the manufacturing PMI, card spending and monthly pricing indicators. The latter will help finalise Q1 estimates. On the global calendar, China trade, monthly UK GDP and the University of Michigan consumer sentiment and inflation expectations data are released.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Manufacturing PMI	Mar	49.3	10:30	
NZ	Card spending total (m/m%)	Mar	-1.9	10:45	
NZ	Food prices (m/m%)	Mar	-0.6	10:45	
UK	GDP (m/m%)	Feb	0.1	0.2	18:00
UK	Industrial production (m/m%)	Feb	0.0	-0.2	18:00
CH	Exports (USD, y/y%)	Mar	-1.8	2.3	
CH	Imports (USD, y/y%)	Mar	1.0	0.2	
US	U. of Mich. consumer sent.	Apr	79.0	79.4	02:00
US	U. of Mich. 5-10yr inflation exp.	Apr	2.8	2.8	02:00

Source: Bloomberg, BNZ

Currencies							Equities				Commodities					
Global froces	Indicative overnight ranges (*)				Other FX		Major Indices				Price (Near futures, except CRB)					
	Last	% Day	Low	High		Last	% Day			Last	Net Day					
NZD	0.5996	+0.3	0.5969	0.6015	CHF	0.9099	-0.3	S&P 500	5,209	+0.9	26.8	Oil (Brent)	89.94	-0.6		
AUD	0.6539	+0.4	0.6510	0.6553	SEK	10.732	+0.1	Dow	38,569	+0.3	14.5	Oil (WTI)	85.30	-1.1		
EUR	1.0726	-0.2	1.0699	1.0757	NOK	10.832	-0.1	Nasdaq	16,431	+1.6	36.6	Gold	2356.7	+1.2		
GBP	1.2553	+0.1	1.2511	1.2579	HKD	7.838	+0.0	Stoxx 50	4,967	-0.7	14.6	HRC steel	850.0	+0.6		
JPY	153.24	+0.1	152.80	153.32	CNY	7.237	+0.0	FTSE	7,924	-0.5	1.8	CRB	297.9	+0.4		
CAD	1.3684	+0.0			SGD	1.353	-0.1	DAX	17,954	-0.8	14.7	Wheat Chic.	567.0	-1.1		
NZD/AUD	0.9170	-0.1			IDR	15,848	-0.3	CAC 40	8,024	-0.3	8.6	Sugar	20.85	-2.8		
NZD/EUR	0.5590	+0.5			THB	36.49	-0.4	Nikkei	39,443	-0.4	40.5	Cotton	83.37	-2.4		
NZD/GBP	0.4777	+0.3			KRW	1,364	+1.1	Shanghai	3,034	+0.2	-8.8	Coffee	217.4	+2.8		
NZD/JPY	91.88	+0.4			TWD	32.23	+0.8	ASX 200	7,814	-0.4	6.4	WM powder	3290	-0.9		
NZD/CAD	0.8205	+0.4			PHP	56.50	+0.5	NZX 50	11,934	-0.3	0.1	Australian Futures				
NZ TWI	70.78	+0.3						VIX Index	15.05	-4.7	-21.2	3 year bond	96.19	-0.14		
Interest Rates											10 year bond			95.72	-0.06	
		Rates			Swap Yields		Benchmark 10 Yr Bonds		NZ Government Bonds			NZ BKBM and Swap Yields				
		Cash	3Mth	2 Yr	10 Yr	Last		Last		Chg		Last			Chg	
USD	5.50	5.56	4.87	4.20	USD	4.57	0.03	15-May-26	4.85	0.14	BKBM 1-mth	5.60	0.00			
AUD	4.35	4.35	4.14	4.51	AUD	4.26	0.14	15-Apr-27	4.69	0.15	BKBM 3-mth	5.64	0.01			
NZD	5.50	5.64	5.06	4.64	NZD	4.81	0.13	15-May-28	4.63	0.15	1 year	5.45	0.07			
EUR	4.00	3.91	3.29	2.76	GER	2.46	0.03	20-Apr-29	4.62	0.14	2 year	5.06	0.14			
GBP	5.25	5.30	4.66	3.92	GBP	4.20	0.05	15-May-30	4.65	0.14	3 year	4.81	0.15			
JPY	0.08	-0.03	0.36	0.98	JPY	0.87	0.07	15-May-31	4.69	0.14	5 year	4.61	0.17			
CAD	5.00	5.29	4.68	4.07	CAD	3.73	0.03	15-May-32	4.74	0.14	7 year	4.59	0.17			
							NZ Inflation-Indexed Bonds		14-Apr-33	4.77	0.13	10 year	4.64	0.16		
							Sep-30	2.45	0.10	15-May-34	4.81	0.13	15 year	4.77	0.16	
							Sep-35	2.77	0.10	15-May-35	4.87	0.13				
							Sep-40	2.96	0.10	15-May-37	4.96	0.12				
										15-May-41	5.07	0.12				
										15-May-51	5.04	0.12				
										15-May-54	5.07	0.11				

* These are indicative r 07:01 please confirm rates with your BNZ dealer
Rates are as of: NZT
Source: Bloomberg

NZD exchange rates

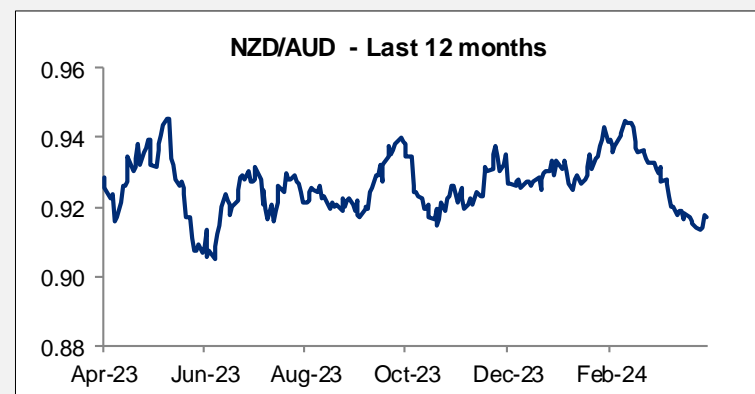
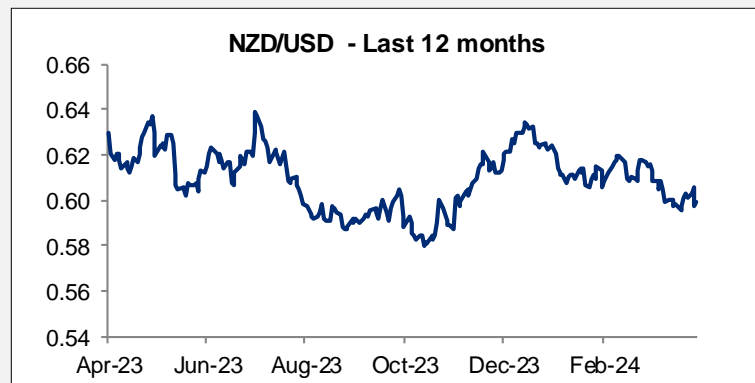
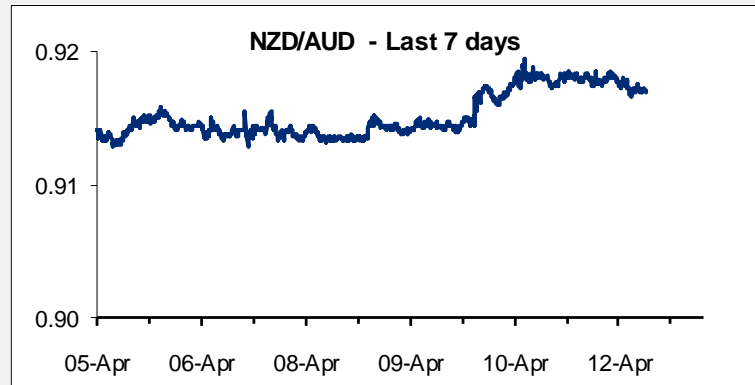
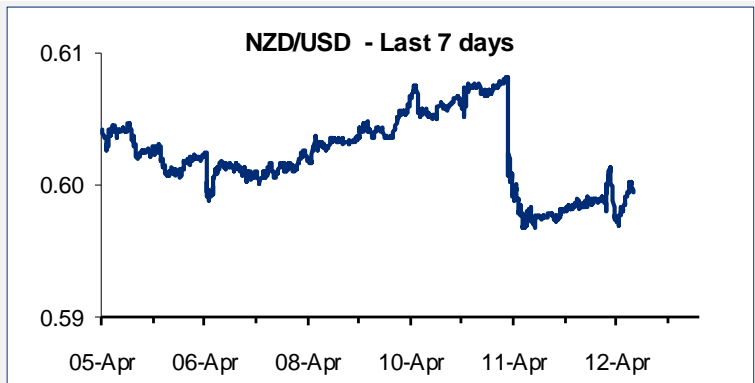
12/04/2024 7:01 am		Prev. NY close
USD	0.5996	0.5975
GBP	0.4777	0.4765
AUD	0.9170	0.9175
EUR	0.5590	0.5562
JPY	91.88	91.51
CAD	0.8205	0.8175
CHF	0.5456	0.5454
DKK	4.1698	4.1492
FJD	1.3655	1.3607
HKD	4.6996	4.6818
INR	49.88	49.78
NOK	6.4949	6.4797
PKR	166.73	166.18
PHP	33.88	33.75
PGK	2.2669	2.2590
SEK	6.4347	6.4048
SGD	0.8113	0.8089
CNY	4.3393	4.3225
THB	21.95	21.73
TOP	1.3934	1.3924
VUV	72.87	72.09
WST	1.6505	1.6256
XPF	66.42	66.26
ZAR	11.2343	11.2191

NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.01	0.38
3 Months	0.23	0.75
6 Months	0.52	1.61
9 Months	1.01	3.59
1 Year	1.76	4.76

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-8.18	-7.39
3 Months	-23.81	-22.59
6 Months	-45.70	-42.64
9 Months	-65.19	-59.16
1 Year	-81.24	-72.61



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