

Research Markets Today

14 February 2024

Events Round-Up

AU: Westpac consumer confid., Feb: 86.0 vs. 81.0 prev.
 AU: NAB business conditions, Jan: 6 vs. 8 prev.
 NZ: RBNZ 2y inflation expect. (%), Q1: 2.50 vs. 2.76 prev.
 UK: Unemployment rate (%), Q4: 3.8 vs 4.0 exp.
 UK: Wkly earnings x bonus (y/y%), Q4: 6.2 vs. 6.0 exp.
 GE ZEW survey expectations, Feb: 19.9 vs. 17.3 exp.
 US: NFIB small bus. Optimism, Jan: 89.9 vs. 92.3 exp.
 US: CPI (m/m%), Jan: 0.3 vs. 0.2 exp.
 US: CPI ex food, energy (m/m%), Jan: 0.4 vs. 0.3 exp.
 US: CPI (y/y%), Jan: 3.1 vs. 2.9 exp.
 US: CPI ex food, energy (y/y%), Jan: 3.9 vs. 3.7 exp.

Good Morning

Higher than expected US CPI data rocked the market, pushing out the timing of any likely Fed rate cuts. The data drove weaker equity markets, an 11-14bps lift in US Treasury yields out to 10-years, and broadly based USD strength. The NZD is down 1.3% from this time yesterday to 0.6060 and weaker on most crosses, with a fall in 2-year inflation expectations adding to the weakness, as the market pared back the chance of another RBNZ rate hike.

Stronger than expected US CPI data overnight have seen a further paring of Fed rate cut expectations, with now almost little chance given to a cut next month and pricing through to May pared back to 10bps, from 17bps yesterday and 33bps at the start of the month. US Treasury yields are higher across the curve with a flattening bias, with the 2-year rate up 14bps to 4.62% and the 10-year rate up 11bps to 4.29%, a fresh high for the year. Higher rates have dragged equity markets lower, with the S&P500 currently down over 1% and back comfortably below the 5000 level.

Both headline and core CPI inflation for January were 0.1 percentage points higher than expected, with rounding seeing the annual figures 0.2 percentage points higher. This saw the core measure up 0.4% m/m and leaving the annual increase of 3.9% y/y unchanged from the prior month. Shelter costs contributed to more than two thirds of the increase, with some of that reflecting an odd lift in "owners' equivalent rent", going against a moderation in "primary rent". This was a factor in the so-called "super

core" measure of inflation rising 0.85% m/m, the strongest since April 2022.

For those looking for a silver lining, January data are typically stronger than other months as the new year is typically used as an excuse to raise prices for those items where price changes are infrequent, and with some residual seasonality in the likes of airfares and hotels. Furthermore, the Fed's preferred measure of inflation, based on the PCE deflator, has a much lower weighting to housing, so is highly unlikely to be as strong as the CPI, and PPI data due later this week will also provide additional colour to that preferred measure. On that note, the unexpected lift in hospital services won't be captured by the PCE deflator as it is measured differently, using a component of the PPI.

Early estimates of the core PCE deflator put it closer to 0.3%, which would see the 3-month annualised figure lift from 1.5% to 2.1% and the equivalent six-month figure lift from 1.9% to 2.2%, leaving it still close to the Fed's target.

The NFIB small business survey was more downbeat than expected – with weaker expectations for the economy, sales, earnings and hiring intentions, amongst others – but the bond market was in no mood to celebrate, and the following CPI data was much more market moving.

UK labour market data were stronger than expected, with the unemployment rate two-tenths lower than expected at 3.8% and wages inflation not falling as fast as expected. The stronger data, as well as the spillover effect from the US market, saw market pricing for the first full BoE easing pushed out from August to September and the GBP managed to hold its ground against a broadly stronger USD overnight.

The DXY USD index is up 0.6% on the day, with GBP close to 1.26, only down slightly on the day. EUR found some support at 1.07 and USD/JPY pierced up through 150 for the first time this year, now 150.80 – look out for more comments from Japan's MoF later today that they are watching currency markets "with a sense of urgency".

Both the AUD and the NZD are down about 1.3% from this time yesterday, with the former approaching 0.6450 and the latter just below 0.6060. The NZD lost some air yesterday after soft inflation expectation data, but regained lost ground in the lead-up to the US CPI data before being whacked. NZD/AUD is steady around 0.9380

but other crosses are lower, NZD/GBP being the largest mover, seeing it fall back close to 0.48.

The RBNZ survey of expectations showed broad-based falls in CPI inflation, wage inflation and house price inflation expectations. The key 2-year CPI inflation expectations figure fell 26bps to 2.50%, the lowest reading since Q3 2021. This will offer some comfort to the RBNZ as they begin deliberations on the next policy round and the market pared back some tightening that has been priced into the curve.

By the close, the market was pricing in a 25% chance of a hike later this month and pricing for a hike by May diminished to a 45% chance. The swaps curve remained jumpy and was much steeper on the day, with the 2-year rate down 5bps to 5.18% and the 10-year rate up 4bps to 4.70. The extent of steepening for NZGBs was much more orderly, with rates down 1-2bps through to 8-years maturity, and the rest of the curve little changed.

In the day ahead, domestic economic releases include REINZ housing market, card spending, and monthly pricing

indicators. UK CPI data due tonight are expected to show a small uptick in annual inflation measures. Euro area GDP data are expected to confirm that the region was close to recession at the end of last year.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	REINZ house sales (y/y%)	Jan		14.1	09:00
NZ	Card spending (m/m%)	Jan		-0.6	10:45
NZ	Food prices (y/y%)	Jan		6.7	10:45
UK	CPI (y/y%)	Jan	4.1	4	20:00
UK	CPI core (y/y%)	Jan	5.2	5.1	20:00
EC	GDP (q/q%)	Q4	0.0	0.0	23:00
EC	Industrial production (m/m%)	Dec	-0.2	-0.3	23:00

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	0.6056	-1.2	0.6054	0.6124	CHF	0.8872	+1.3	S&P 500	4,965	-1.1	20.0	Oil (Brent)	83.04	+1.3
AUD	0.6456	-1.2	0.6453	0.6535	SEK	10.585	+1.8	Dow	38,310	-1.3	11.9	Oil (WTI)	78.19	+1.7
EUR	1.0716	-0.5	1.0701	1.0795	NOK	10.673	+1.6	Nasdaq	15,691	-1.6	31.9	Gold	1992.0	-1.3
GBP	1.2601	-0.2	1.2576	1.2684	HKD	7.820	+0.0	Stoxx 50	4,689	-1.2	10.6	HRC steel	933.0	+0.0
JPY	150.79	+1.0	149.28	150.80	CNY	7.194	-0.0	FTSE	7,512	-0.8	-5.5	CRB	273.3	-0.4
CAD	1.3571	+0.9			SGD	1.351	+0.5	DAX	16,881	-0.9	9.6	Wheat Chic.	597.5	-0.3
NZD/AUD	0.9380	-0.1			IDR	15,604	+0.1	CAC 40	7,625	-0.8	5.8	Sugar	23.34	-0.9
NZD/EUR	0.5651	-0.7			THB	36.07	+0.5	Nikkei	37,964	+2.9	37.5	Cotton	91.92	+1.5
NZD/GBP	0.4806	-1.0			KRW	1,328	-0.3	Shanghai	2,866	+1.3	-12.4	Coffee	187.6	-1.9
NZD/JPY	91.32	-0.3			TWD	31.36	+0.1	ASX 200	7,604	-0.1	2.3	WM powder	3415	+0.4
NZD/CAD	0.8219	-0.4			PHP	55.95	-0.1	NZX 50	11,740	-0.2	-2.8	Australian Futures		
NZ TWI	71.30	-0.8						VIX Index	14.68	+5.4	-27.8	3 year bond	96.25	-0.01
Interest Rates														
Rates		Swap Yields		Benchmark 10 Yr Bonds		NZ Government Bonds				NZ BKBM and Swap Yields				
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day		Last	Chg		Last	Chg	
USD	5.50	5.57	4.50	3.92	USD	4.28	0.10	15-May-26	5.00	-0.01	BKBM 1-mth	5.63	-0.03	
AUD	4.35	4.35	4.12	4.51	AUD	4.17	0.01	15-Apr-27	4.84	-0.02	BKBM 3-mth	5.74	-0.04	
NZD	5.50	5.74	5.18	4.70	NZD	4.87	0.00	15-May-28	4.75	-0.01	1 year	5.67	-0.02	
EUR	4.00	3.91	3.16	2.76	GER	2.39	0.03	20-Apr-29	4.72	-0.01	2 year	5.18	-0.05	
GBP	5.25	5.32	4.64	3.93	GBP	4.15	0.09	15-May-30	4.74	-0.01	3 year	4.88	-0.02	
JPY	0.00	-0.03	0.27	0.95	JPY	0.73	0.00	15-May-31	4.78	-0.01	5 year	4.68	0.02	
CAD	5.00	5.36	4.70	3.98	CAD	3.65	0.07	15-May-32	4.81	-0.01	7 year	4.65	0.04	
						NZ Inflation-Indexed Bonds		14-Apr-33		4.83	0.00	10 year	4.70	0.04
* These are indicative ranges from 5pm NZT;						Sep-30	2.54	-0.07	15-May-34	4.87	0.00	15 year	4.81	0.01
please confirm rates with your BNZ dealer						Sep-35	2.85	-0.06	15-May-37	5.02	0.00			
Rates are as of: NZT 06:54						Sep-40	3.05	-0.06	15-May-41	5.12	0.00			
Source: Bloomberg								15-May-51	5.11	0.00				

NZD exchange rates

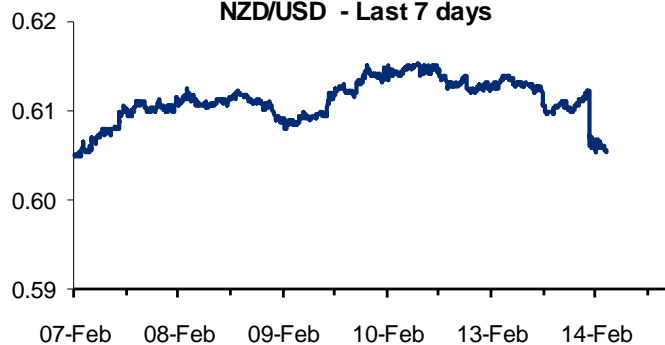
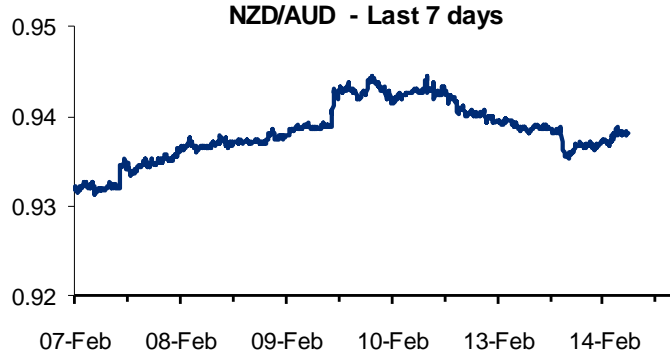
14/02/2024	6:54 am	Prev. NY close
USD	0.6056	0.6131
GBP	0.4806	0.4855
AUD	0.9380	0.9388
EUR	0.5651	0.5692
JPY	91.32	91.57
CAD	0.8219	0.8247
CHF	0.5373	0.5369
DKK	4.2126	4.2424
FJD	1.3670	1.3855
HKD	4.7355	4.7925
INR	50.27	50.89
NOK	6.4635	6.4380
PKR	169.16	171.27
PHP	33.89	34.35
PGK	2.2707	2.2988
SEK	6.4104	6.3765
SGD	0.8181	0.8244
CNY	4.3564	4.4123
THB	21.63	22.00
TOP	1.4094	1.4395
VUV	73.43	74.39
WST	1.6565	1.6706
XPF	67.03	67.68
ZAR	11.5897	11.5897

NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.15	0.26
3 Months	-1.09	-0.49
6 Months	-6.02	-4.22
9 Months	-13.06	-10.95
1 Year	-22.27	-19.26

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-8.72	-7.67
3 Months	-27.53	-26.10
6 Months	-57.26	-53.03
9 Months	-82.40	-76.98
1 Year	-105.74	-97.82

NZD/USD - Last 7 days**NZD/AUD - Last 7 days****NZD/USD - Last 12 months****NZD/AUD - Last 12 months**

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