

Research Markets Today

15 March 2024

Events Round-Up

US: Retail sales (m/m%), Feb: 0.6 vs. 0.8 exp
 US: Retail sales ex auto, gas (m/m%), Feb: 0.3 vs. 0.3 exp.
 US: Retail sales control group (m/m%), Feb: 0.0 vs. 0.4 exp.
 US PPI final demand (m/m%), Feb: 0.6 vs. 0.3 exp.
 US: PPI ex food and energy (m/m%), Feb: 0.3 vs. 0.2 exp.
 US: PPI ex food and energy (y/y%), Feb: 2.0 vs. 1.9 exp.
 US: Initial jobless claims (k), wk to 9 Mar: 209 vs. 218 exp.

Good Morning

It hasn't been a very good day for asset markets, with US data showing a stagflationary bias – higher inflation and weaker consumer spending – driving a sell-off of US Treasuries and equities. The 10-year rate is up 10bps on the day after PPI inflation came in strong, while the S&P500 is down 0.5%. Higher US rates have driven broad gains in the USD. Unusually, the yen has been least affected as speculation of a rate hike by the BoJ next week increases. The NZD has fallen to 0.6130 and oil prices are higher on a change in outlook from the International Energy Agency.

US data releases were mixed, with signs of stronger than expected inflation and a resilient labour market, but consumer spending coming under pressure. US PPI final demand for February came in hot at 0.6% m/m, double the 0.3% expected, with higher than expected food and energy prices doing most of the damage. However, the PPI ex food and energy index was also stronger at 0.3% against the 0.2% expected. Pantheon Macroeconomics now expects the core PCE deflator to show a 0.37% increase in February, down only a touch from 0.41% in January and still too strong for comfort.

Retail sales rose 0.6% m/m in February, below the 0.8% lift expected and, while the ex-auto and gas measure was in line at 0.3%, the control group measure, which feeds into GFP, was flat, against the expected 0.4% lift. Downward revisions to January data for most of the measures added to the sense that consumer spending was likely weaker than expected in Q1, a big step down in growth from recent quarters.

Initial jobless claims fell 1k to 209k in the week to 9 March, from a revised-lower 210k in the prior week, consistent

with a steady trend and still showing no signs of the increase in job layoffs that other indicators show.

Regarding the market's reaction to the three key data releases, the stronger inflation dynamic seemingly affected the market the most, driving US Treasury yields and the USD higher. The data all but extinguishes the chance of the Fed cutting rates in May, which was already looking less likely by the week. A June rate cut is now priced at 17bps, down from 23bps priced as at the end of last week, prior to this week's CPI and PPI prints. Some 76bps of cuts are priced for this year, in line with the Fed's December dotplot, compared to 95bps priced at the end of last week.

The US 2-year rate is up 5bps on the day, while the curve has steepened, the 10-year rate up 10bps to 4.29%.

Not helping the rates market is a 2% lift in oil prices, taking Brent crude up to a four-month high above USD85 per barrel. While Ukraine's drone strikes on Russian refineries did the damage yesterday, an overnight report from the IEA has pushed up prices further. The IEA has reversed its prior call and now warns of a supply deficit throughout the year. This is based on an assumption that OPEC+ now maintains its production curbs in the second half.

US equities are weaker on the day, with the S&P500 currently down 0.5%, weighed down by interest-rate sensitive sectors.

Higher US rates have supported the USD and the DXY index is up 0.6% for the day. While higher US rates would normally see JPY at the bottom of the pack, the yen has been least affected, finding support from increased speculation of a rate hike next week. Earlier this week, Japanese news agency Jiji reported that the BoJ would end its negative policy rate at its March meeting if wage growth was strong. Over recent days there has been abundant evidence that the current union negotiations are seeing a step up in wages. Jiji now reports that the BoJ will make a final decision after reviewing the first tally of annual wage deals (released early evening today, NZ time). USD/JPY fell to as low as 147.45 on the report, but is now close to 148.25.

The broadly based USD strength has seen the NZD weaken to 0.6130 but NZD crosses are mixed, with small gains and losses against other majors. AUD is trading down at 0.6585 and NZD/AUD has been hovering around 0.9310.

Higher global rates imparted a small upside bias to NZ yields yesterday. There was payside pressure in the swaps

market, seeing rates up 3-4bps across the curve. NZGBs outperformed, with the market easily absorbing the weekly bond tender, with lower than usual duration on offer. NZGB yields closed the day unchanged out to 8-years maturity, the 10-year rate was up a tick to 4.65% and ultra-long bonds continued to trade relatively heavy, with a lift of 2-3bps.

In the day ahead NZ's manufacturing PMI is released, while a few pundits expect a 10bps cut to China's 1-year medium-term facility rate, but most expect no change in monetary policy. US data released tonight are second-tier, including the Empire manufacturing survey, industrial production and UoM consumer sentiment as well as inflation expectations data.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Manufacturing PMI	Feb		47.3	10:30
CH	1yr med.-term lending rate	Mar	2.5	2.5	14:20
US	Empire manufacturing	Mar	-7	-2.4	01:30
US	Industrial production (m/m%)	Feb	0.0	-0.1	02:15
US	U. of Mich. consumer sentiment	Mar	77.2	76.9	03:00
US	U. of Mich. 5-10 yr inflation exps.	Mar	2.9	2.9	03:00

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	0.6132	-0.4	0.6123	0.6173	CHF	0.8836	+0.5	S&P 500	5,139	-0.5	31.1	Oil (Brent)	85.47	+1.7	
AUD	0.6584	-0.6	0.6570	0.6630	SEK	10.341	+1.1	Dow	38,904	-0.4	21.0	Oil (WTI)	81.36	+2.1	
EUR	1.0887	-0.6	1.0881	1.0945	NOK	10.561	+0.8	Nasdaq	16,144	-0.2	41.3	Gold	2164.9	-0.7	
GBP	1.2752	-0.4	1.2731	1.2823	HKD	7.822	-0.0	Stoxx 50	4,993	-0.1	19.5	HRC steel	793.0	+0.8	
JPY	148.27	+0.3	147.44	148.32	CNY	7.194	+0.1	FTSE	7,743	-0.4	1.4	CRB	281.1	+1.0	
CAD	1.3526	+0.4			SGD	1.336	+0.3	DAX	17,942	-0.1	17.8	Wheat Chic.	531.0	-2.4	
NZD/AUD	0.9313	+0.2			IDR	15,580	+0.0	CAC 40	8,161	+0.3	14.3	Sugar	21.77	-0.6	
NZD/EUR	0.5632	+0.2			THB	35.80	+0.4	Nikkei	38,807	+0.3	42.5	Cotton	93.28	-1.7	
NZD/GBP	0.4809	-0.1			KRW	1,318	+0.3	Shanghai	3,038	-0.2	-6.9	Coffee	183.9	+0.7	
NZD/JPY	90.92	-0.0			TWD	31.51	+0.1	ASX 200	7,714	-0.2	9.1	WM powder	3125	+0.5	
NZD/CAD	0.8294	+0.0			PHP	55.41	+0.0	NZX 50	11,808	-0.0	1.6	Australian Futures			
NZ TWI	71.58	-0.1						VIX Index	14.67	+6.7	-38.2	3 year bond	96.32	-0.04	
Interest Rates											10 year bond			95.85	-0.09
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	5.59	4.58	3.91	USD	4.29	0.10	15-May-26	4.71	-0.00	BKBM 1-mth	5.59	0.00		
AUD	4.35	4.34	4.02	4.38	AUD	4.06	0.04	15-Apr-27	4.53	0.00	BKBM 3-mth	5.64	0.00		
NZD	5.50	5.64	4.92	4.42	NZD	4.65	0.01	15-May-28	4.44	0.00	1 year	5.43	0.01		
EUR	4.00	3.94	3.22	2.70	GER	2.43	0.06	20-Apr-29	4.43	0.00	2 year	4.92	0.03		
GBP	5.25	5.32	4.55	3.80	GBP	4.09	0.07	15-May-30	4.46	0.00	3 year	4.61	0.03		
JPY	-0.01	-0.03	0.26	0.90	JPY	0.78	0.01	15-May-31	4.50	0.01	5 year	4.37	0.03		
CAD	5.00	5.31	4.56	3.85	CAD	3.52	0.09	15-May-32	4.55	0.01	7 year	4.35	0.03		
* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer							NZ Inflation-Indexed Bonds								
Rates are as of: NZT 06:55							Sep-30	2.34	0.01	15-May-34	4.65	0.01	10 year	4.42	0.04
Source: Bloomberg							Sep-35	2.65	0.01	15-May-37	4.81	0.02	15 year	4.53	0.04
							Sep-40	2.83	0.01	15-May-41	4.90	0.02			
										15-May-51	4.89	0.02			
										15-May-54	4.91	0.03			

NZD exchange rates

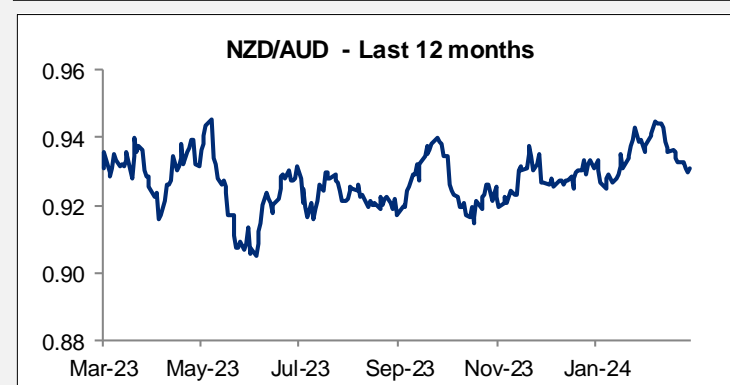
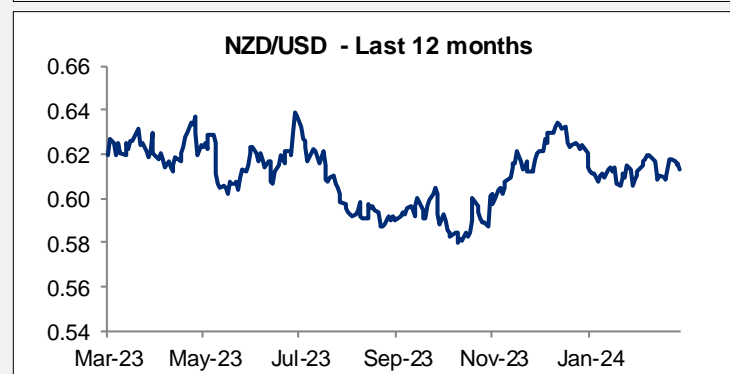
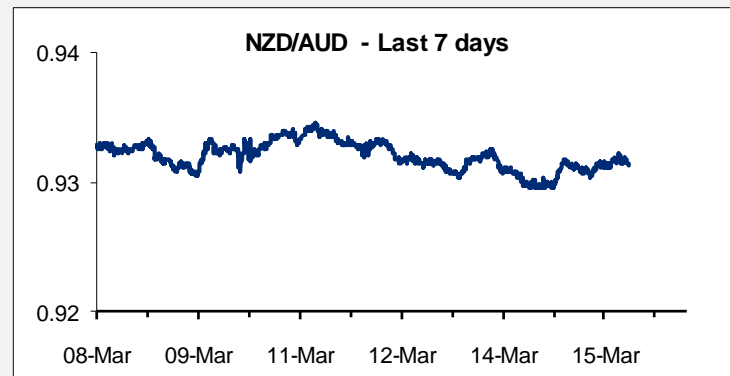
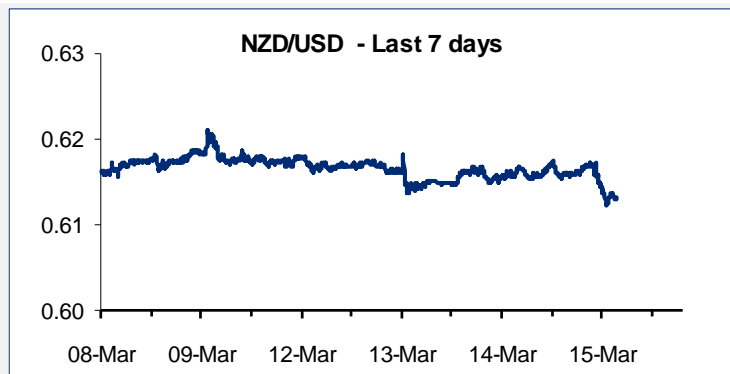
15/03/2024	6:55 am	Prev. NY close
USD	0.6132	0.6157
GBP	0.4809	0.4811
AUD	0.9313	0.9299
EUR	0.5632	0.5624
JPY	90.92	90.98
CAD	0.8294	0.8294
CHF	0.5418	0.5411
DKK	4.2000	4.1935
FJD	1.3737	1.3833
HKD	4.7966	4.8170
INR	50.79	51.02
NOK	6.4759	6.4530
PKR	171.01	171.96
PHP	33.97	34.11
PGK	2.3087	2.3181
SEK	6.3409	6.2971
SGD	0.8193	0.8203
CNY	4.4115	4.4249
THB	21.84	22.00
TOP	1.4214	1.4436
VUV	73.76	74.16
WST	1.6625	1.6716
XPF	67.05	67.47
ZAR	11.5030	11.4386

NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	0.10	0.33
3 Months	-0.08	0.46
6 Months	-2.10	-0.85
9 Months	-5.33	-3.33
1 Year	-8.45	-5.45

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-8.54	-7.88
3 Months	-25.23	-23.97
6 Months	-50.31	-47.00
9 Months	-72.42	-67.30
1 Year	-90.86	-82.30



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