

# Research Markets Today

15 May 2024

## Events Round-Up

NZ: Card spending (m/m%), Apr: 0.9 vs. -0.9 prev.

NZ: Net migration, Mar: 4910 vs. 6330 prev.

UK: Unemployment rate (%), Mar: 4.3 vs. 4.3 exp.

UK: Wly earnings ex bonus (3m/y%), Mar: 6.0 vs. 5.9 exp.

GE: ZEW survey expectations, May: 47.1 vs. 46.4 exp.

US: NFIB small business optimism, Apr: 89.7 vs. 88.2 exp.

US: PPI ex food and energy (m/m%), Apr: 0.5 vs. 0.2 exp.

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

## Good Morning

Markets remain in a holding pattern ahead of tonight's key US CPI release. There was some sticker shocker from a higher PPI print overnight, but on further reflection the data were mixed, and the spike in the USD and rates was very short-lived. US equities are up modestly, US Treasury yields are down slightly, and the USD is broadly weaker, seeing the NZD push up to 0.6040.

There has been plenty of news to digest but net market movements have been well contained, ahead of US CPI data tonight. PPI inflation was much stronger than expected in April, but downward revisions to previous data helped offset the sticker shock. The core measure, which excludes food and energy, rose 0.5% m/m, three-tenths higher than consensus, lifting the annual increase to 2.4%, just one-tenth higher than expected. Services prices rose 0.6% m/m, the most since July, suggesting still-sticky, if not rising, inflation pressure in that sector, so still suggesting that weaker wage inflation has yet to feed through. However, the market took some solace from the fact that components feeding into the PCE deflator, which is the Fed's preferred inflation measure, were low. These included various insurance measures and airfares.

The NFIB survey showed US small business optimism rising for the first time this year to 89.7, albeit off an 11-year low. The share of firms planning to increase prices fell 7pts to 26%, the lowest reading in a year, a positive sign considering the backdrop of higher commodity prices, which would normally see a lift in this figure.

Fed Chair Powell reiterated the message delivered at the last FOMC announcement, noting the recent run of higher-than-expected inflation and "it looks like it will take longer for us to become confident that inflation is coming down

to 2% over time". There was no suggestion of needing higher rates but, in describing current policy as restrictive by "many, many measures", it was "probably a matter of just staying at that stance for longer". Speaking after the PPI release, when questioned about it he said, "I wouldn't call it hot, I would call it sort of mixed".

The US 10-year rate rose to a high of 4.53% immediately after the PPI release, but the spike higher was short-lived after the detail was digested, and the rate has settled at 4.44%, down 4bps on the day. The 2-year rate down 5bps to 4.81%. The bigger picture is one of rates consolidating over the past week or so.

Likewise, the USD shot higher after the PPI release, but the move didn't last long and the currency is broadly weaker on the day, although net movements have been modest. The NZD has been one of the better performers, up 0.4% overnight to 0.6040, and NZD crosses are higher, even if by a tiny amount for some. The AUD has pushed up to 0.6625 and NZD/AUD is a touch higher near 0.9120. The yen has been the weakest performer, seeing NZD/JPY up 0.5% to 94.5. Interestingly, the yen is struggling despite JGB yields pushing up to levels not seen in more than a decade, as the impact of recent official intervention gradually wears off.

There was no market reaction to President Biden's announcement on new tariffs on a range of Chinese imports, with the news well flagged by media from last Friday. Import tariffs will be raised on semiconductors, batteries, solar cells, and critical minerals, in addition to previously reported increases on steel, aluminium and electric vehicles. The tariffs are projected to affect about \$18b of current annual imports, or about 0.5% of total imports, suggesting this is more a political than economic move.

In other news, UK labour market data showed weaker employment and payrolled employees and a lift in the unemployment rate to 4.3%, the highest since July last year. While weekly earnings ex bonuses rose by slightly higher than expected at 6.0% y/y, it was one-tenth lower than the BoE expected for the private sector, at 5.9%. The data cemented in rate cut expectations, with August (fully priced) still looking much more likely than June (slightly better than even chance priced). Speaking after the release, BoE chief economist Pill said that "it's not unreasonable to believe that through the summer" a rate cut "will come under consideration", recognising that this would still leave policy restrictive.

The Australian Budget showed looser fiscal settings than expected, based on projections for larger budget deficits, rising to a peak of 1½% of GDP in FY26. The package of announcements included energy and rent subsidies that will directly reduce household living costs, cutting short-term inflation. But to the extent that these will free up cash for households to spend elsewhere, they are likely to add to inflation pressure and will not make the RBA’s job any easier to bring down underlying inflation.

The Budget didn’t perturb the market, but Australian bond yields are modestly higher overnight, more in line with the lift in euro area rates than the fall in Treasury yields. NZGB bonds outperformed yesterday, ahead of the maturity of the May-2024 bond today and a significant day for coupon payments. Yields fell 4bps across the curve, against a 2bps fall for swap rates. NZ economic data released yesterday, showed weak REINZ house price data, still-poor conditions for retail spending based on electronic card transactions, and further signs of slowing net migration.

On the calendar, all eyes will be on the US CPI report where, after three successive upside surprises, there is some hope that the core increase moderates to 0.3% m/m. The details on the services side will matter and any pullback in inflation would be seen very favourably by the market. Retail sales are released at the same time, with modest growth expected in April after a strong March.

Euro area GDP is expected to be 0.3% q/q, in line with the previous estimate. Australian wages data will be of interest during NZ trading hours.

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### Coming Up

		Period	Cons.	Prev.	NZT
CH	1yr med.-term lending rate (%)	May	2.5	2.5	13:20
AU	Wage price index (y/y%)	Q1	4.2	4.2	13:30
AU	Wage price index (q/q%)	Q1	0.9	0.9	13:30
EC	GDP (q/q%)	Q1	0.3	0.3	21:00
EC	Industrial production (m/m%)	Mar	0.4	0.8	21:00
US	Empire manufacturing	May	-10.0	-14.3	00:30
US	CPI (m/m%)	Apr	0.4	0.4	00:30
US	CPI ex food, energy (m/m%)	Apr	0.3	0.4	00:30
US	CPI (y/y%)	Apr	3.4	3.5	00:30
US	CPI ex food, energy (y/y%)	Apr	3.6	3.8	00:30
US	Retail sales (m/m%)	Apr	0.4	0.7	00:30
US	Retail sales ex auto, gas (m/m%)	Apr	0.1	1.0	00:30
US	Retail sales control grp (m/m%)	Apr	0.1	1.1	00:30
US	NAHB housing market index	May	51	51	02:00

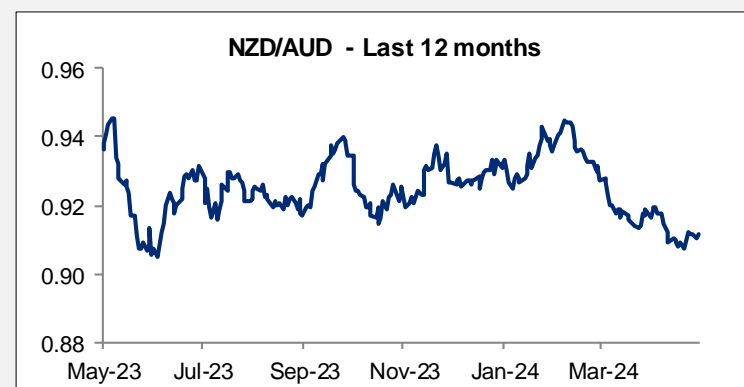
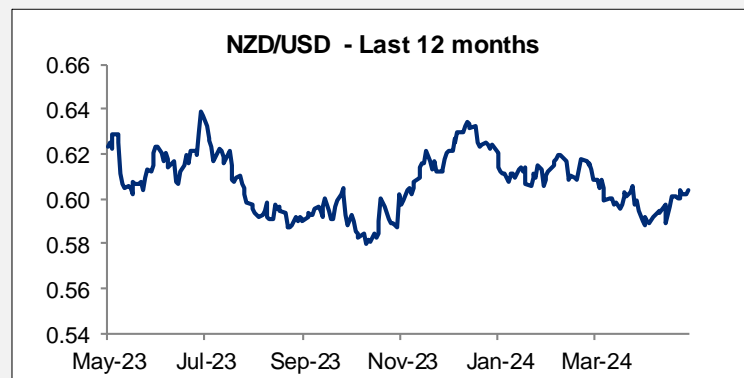
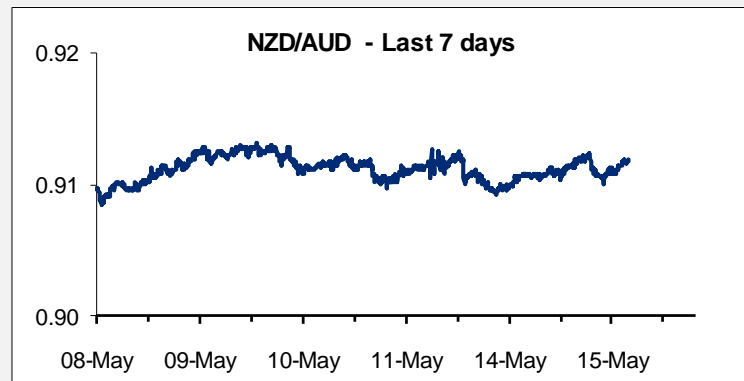
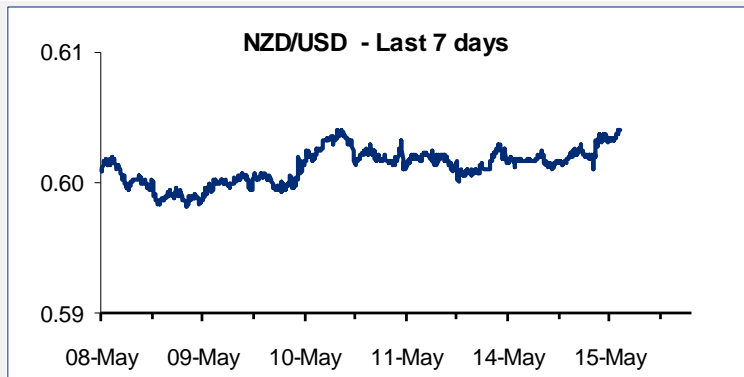
Source: Bloomberg, BNZ

Currencies						Equities				Commodities				
Global froces		Indicative overnight ranges (*)			Other FX		Major Indices				Price (Near futures, except CRB)			
	Last	% Day	Low	High	Last	% Day	Last	% Day	% Year	Last	Net Day			
NZD	0.6040	+0.4	0.5996	0.6040	CHF	0.9066	-0.2	5,246	+0.5	27.2	Oil (Brent)	82.45	-1.1	
AUD	0.6623	+0.2	0.6580	0.6628	SEK	10.817	-0.2	39,557	+0.3	18.8	Oil (WTI)	78.11	-1.3	
EUR	1.0820	+0.3	1.0768	1.0826	NOK	10.811	-0.1	16,507	+0.7	34.4	Gold	2364.2	+0.9	
GBP	1.2589	+0.2	1.2510	1.2593	HKD	7.812	+0.0	Stoxx 50	5,080	+0.0	17.7	HRC steel	783.0	+0.3
JPY	156.41	+0.1	156.23	156.74	CNY	7.234	+0.0	FTSE	8,428	+0.2	8.7	CRB	287.7	-0.6
CAD	1.3653	-0.1			SGD	1.352	-0.1	DAX	18,716	-0.1	17.6	Wheat Chic.	674.8	-1.8
NZD/AUD	0.9120	+0.1			IDR	16,100	+0.1	CAC 40	8,226	+0.2	10.9	Sugar	18.87	+1.3
NZD/EUR	0.5582	+0.1			THB	36.57	-0.6	Nikkei	38,356	+0.5	29.5	Cotton	74.63	-3.9
NZD/GBP	0.4798	+0.1			KRW	1,369	+0.1	Shanghai	3,146	-0.1	-5.0	Coffee	200.9	+2.4
NZD/JPY	94.47	+0.5			TWD	32.41	-0.0	ASX 200	7,727	-0.3	6.3	WM powder	3150	-0.2
NZD/CAD	0.8246	+0.3			PHP	57.84	-0.0	NZX 50	11,618	-0.3	-2.7	<b>Australian Futures</b>		
NZ TWI	71.19	+0.3						VIX Index	13.34	-1.9	-21.7	3 year bond	96.05	0.01
												10 year bond	95.64	-0.02
Interest Rates						NZ Government Bonds				NZ BKBM and Swap Yields				
Rates		Swap Yields		Benchmark 10 Yr Bonds										
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day	Last	Chg		Last	Chg			
USD	5.50	5.58	4.73	4.08	USD	4.44	-0.04	15-May-26	4.77	-0.04		BKBM 1-mth	5.60	0.00
AUD	4.35	4.37	4.25	4.55	AUD	4.33	0.00	15-Apr-27	4.62	-0.04		BKBM 3-mth	5.63	0.00
NZD	5.50	5.63	4.97	4.57	NZD	4.69	-0.04	15-May-28	4.56	-0.04		1 year	5.40	0.00
EUR	4.00	3.83	3.32	2.82	GER	2.55	0.04	20-Apr-29	4.53	-0.04		2 year	4.97	-0.02
GBP	5.25	5.30	4.54	3.87	GBP	4.17	-0.00	15-May-30	4.54	-0.04		3 year	4.70	-0.02
JPY	0.08	-0.03	0.40	1.03	JPY	0.95	0.02	15-May-31	4.58	-0.04		5 year	4.50	-0.02
CAD	5.00	5.27	4.61	3.99	CAD	3.68	0.00	15-May-32	4.62	-0.04		7 year	4.50	-0.02
								14-Apr-33	4.65	-0.04		10 year	4.57	-0.02
								15-May-34	4.69	-0.04		15 year	4.72	-0.02
								15-May-35	4.74	-0.04				
								15-May-37	4.85	-0.04				
								15-May-41	4.98	-0.04				
								15-May-51	4.99	-0.04				
								15-May-54	5.02	-0.04				

\* These are indicative r 06:59  
 please confirm rates with your BNZ dealer  
 Rates are as of: NZT  
 Source: Bloomberg

**NZD exchange rates**

15/05/2024 6:59 am		Prev. NY close
USD	0.6040	0.6017
GBP	0.4798	0.4791
AUD	0.9120	0.9106
EUR	0.5582	0.5576
JPY	94.47	94.00
CAD	0.8246	0.8223
CHF	0.5476	0.5465
DKK	4.1648	4.1606
FJD	1.3640	1.3678
HKD	4.7187	4.7005
INR	50.44	50.26
NOK	6.5298	6.5136
PKR	167.99	167.45
PHP	34.94	34.82
PGK	2.3089	2.2974
SEK	6.5333	6.5234
SGD	0.8166	0.8144
CNY	4.3692	4.3523
THB	22.15	22.15
TOP	1.4165	1.3980
VUV	73.12	72.40
WST	1.6422	1.6516
XPF	66.66	66.86
ZAR	11.1019	11.0532



**NZD/USD Forward Points**

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.23	0.07
3 Months	-0.38	0.11
6 Months	-0.48	0.52
9 Months	-0.99	1.00
1 Year	-0.95	2.05

**NZD/AUD Forward points**

	BNZ buys NZD	BNZ Sells NZD
1 Month	-9.16	-8.58
3 Months	-24.82	-23.66
6 Months	-44.49	-41.94
9 Months	-59.53	-54.70
1 Year	-69.35	-62.13

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