

Research Markets Today

16 November 2023

Events Round-Up

NZ: Card spending total (m/m%), Oct: -0.3 vs. -0.2 prev.
 NZ: Net migration, Sep: 7510 vs. prev. 12350
 JN: GDP (q/q%), Q3: -0.5 vs. -0.1 exp.
 AU: Wage price index (y/y%), Q3: 4.0 vs. 3.9 exp.
 CH: Industrial production (y/y%), Oct: 4.6 vs. 4.5 exp.
 CH: Retail sales (y/y%), Oct: 7.6 vs. 7.0 exp.
 CH: Fixed assets invest., (YTD (y/y%), Oct: 2.9 vs. 3.1 exp.
 UK: CPI (y/y%), Oct: 4.6 vs. 4.7 exp.
 UK: CPI core (y/y%), Oct: 5.7 vs. 5.8 exp.
 EA: Industrial production (m/m%), Sep: -1.1 vs. -1.0 exp.
 US: Retail sales (m/m%), Oct: -0.1 vs. -0.3 exp.
 US: Retail sales ex auto, gas (m/m%), Oct: 0.1 vs. 0.2 exp.
 US: PPI ex food, energy (m/m%), Oct: 0.0 vs. 0.3 exp.
 US: PPI ex food, energy (y/y%), Oct: 2.4 vs. 2.7 exp.
 US: Empire manufacturing, Nov: 9.1 vs. -3.0 exp.

Good Morning

Following yesterday's substantial decline, US Treasury yields have reversed course, seeing the 10-year rate up 11bps from the NZ close. This followed data showing slightly stronger than expected retail sales but much weaker PPI inflation. Higher rates haven't got in the way of further upside in US equities, while currency movements have been mainly modest overnight and the NZD has consolidated over the 0.60 mark.

The expert commentary around yesterday's massive 19-22bps drop in US Treasury yields for 2 to 10-year rates after a small downside miss in the CPI was that the market had over-reacted. That view has proven to be correct, with yields reversing course overnight after the risk events of the day – the US retail sales and PPI reports – were out of the way, even though with the focus on inflation, the much weaker than expected PPI print might have ordinarily seen lower yields on the day.

Rates are higher across the curve, with the 2-year rate up 8bps to 4.92% and the 10-year rate up 9bps to 4.54%, both just shy of their highs for the session and the latter up 11bps from the NZ close. The move has spilled over into

European rates, albeit not to the same extent, with Germany's 10-year rate up just 4bps on the day.

US economic data were mixed but consistent with the soft-landing narrative and weaker inflationary pressure. Retail sales were slightly stronger than expected and with upward revisions to prior data, with tepid growth of 0.1% m/m in the ex-autos and gas measure following 0.8% m/m growth in September. Hot on the heels of yesterday's downside CPI miss, PPI inflation was also weaker than expected, substantially so, with headline PPI falling 0.5 m/m in October and flat excluding food and energy, the latter three-tenths below the consensus. The NY Fed's Empire manufacturing index surprisingly rebounded from minus 4.6 to plus 9.1, but the survey had a weaker underbelly, with weak new orders and employment indices and signs of higher inventories.

After the 1.9% gain in the S&P500 yesterday, the market has consolidated, not minding the soft-landing narrative, although higher rates have seen the market pull back off its highs and the index is now only up 0.3% in early afternoon trading.

Currency movements have been mostly modest, although GBP has underperformed and is down 0.6% overnight to 1.2420, following slightly weaker than expected inflation data. UK annual CPI inflation fell sharply to a fresh two-year low of 4.6% y/y in October, from 6.7%, due to favourable base effects and core inflation fell to 5.7%, down from 6.1%. The data support the widespread view that the BoE is finished tightening this cycle. EUR is also on the weaker side of the ledger, down to 1.0850, alongside the yen, against the backdrop of higher global yields, seeing USD/JPY climbing back over 151. These moves see the USD DXY index up 0.2%, following the chunky 1.5% fall yesterday, its largest daily drop for 2023.

The NZD and AUD have outperformed, with some better China activity data – or less weak than feared – providing some support to the yuan. China monthly activity data showed a welcome positive surprise for retail sales, with annual growth at a five-month high of 7.6%, even if inflated by last year's COVID lockdown. However, the data also showed a slump in investment, with the property sector remaining a clear drag on the economy.

The NZD showed a spike up to 0.6054 in the aftermath of the US data releases, close to the resistance level we have

previously noted, being around the October high, and it has consolidated near the 0.6030 level. NZD/AUD traded above 0.9280 last night before reversing course and it currently sits at 0.9250, down slightly from the NZ close, with AUD higher at 0.6515. Yesterday, Australian wage inflation data were broadly in line with market and RBA expectations, running at a 14-year high of 4% per annum.

The relatively weak yen sees NZD/JPY push above 91, a fresh eight-year high, while NZD/GBP is up over 1% from this time yesterday to 0.4855.

NZ electronic card transactions data extended their run of patchy to negative results, consistent with very weak spending and a world of pain for retailers, amidst historically low levels of consumer confidence. Remarkably, contracting sales growth is also amidst booming net migration, with a record 119k annual inflow adding to strong 2+% population growth, and painting a picture of even weaker demand growth when considered on a per capita basis.

Domestic rates were dragged down by the large fall in Treasury yields in the aftermath of the soft US CPI report, seeing NZGB yields down a chunky 15-16bps across most of the curve, with a smaller 11-12bps fall in the ultra-long bonds. This saw the 10-year rate close below 5% for the first time in two months and fully unwind the lift seen late last week and earlier this week. Swap rates were down 15-17bps, with the 2-year rate at 5.19%, its lowest close since late-May. Remarkably, the OIS curve still prices a small chance (4bps) of a rate hike later this month, while the first full easing isn't priced until Q3 next year, suggesting

further downside risk to short-term rates relative to our base view of no more tightening and a likely earlier start to the rate cutting cycle. However, that risk will have to wait another day, given the overnight moves, and the Australian 10-year bond future is up 8bps in yield terms since the NZ close, and that will set the tone for trading as the NZ trading day begins.

In the day ahead REINZ housing market data are released, ahead of Australia's employment report, where the consensus sees employment growth not strong enough to prevent a tick higher in the unemployment rate to 3.7%. Only second-tier US data are released tonight, alongside a number of Fed speakers, including NY Fed President Williams.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	REINZ house sales (y/y%)	Oct		5.1	09:00
AU	Employment change (k)	Oct	24	7	13:30
AU	Unemployment rate (%)	Oct	3.7	3.6	13:30
EC	ECB's Lagarde speaks				00:30
US	Initial jobless claims (k)	11-Nov	220	217	02:30
US	Philly Fed business outlook	Nov	-8	-9	02:30
US	Industrial production (m/m%)	Oct	-0.4	0.3	03:15
US	Fed's Williams speaks at US Treasury Market Conf.				03:25
US	NAHB housing market index	Nov	40	40	04:00

Source: Bloomberg, BNZ

Indicative overnight ranges (*)								Other FX				Equities				Commodities**			
								Major Indices				Price							
Last	% Day	Low	High	Last	% Day	% Year	Last	% Day	% Year	Last	Net Day	Last	Net Day						
NZD	0.6029	+0.3	0.6004	0.6054	CHF	0.8876	-0.2	S&P 500	4,507	+0.2	12.9	Oil (Brent)	81.71	-0.9					
AUD	0.6518	+0.2	0.6485	0.6542	SEK	10.518	-0.7	Dow	34,940	+0.3	4.0	Oil (WTI)	77.22	-1.3					
EUR	1.0853	-0.2	1.0832	1.0886	NOK	10.784	-0.9	Nasdaq	14,122	+0.2	24.3	Gold	1964.8	-0.1					
GBP	1.2422	-0.6	1.2404	1.2495	HKD	7.807	+0.0	Stoxx 50	4,316	+0.6	10.2	HRC steel	890.0	-0.6					
JPY	151.17	+0.5	150.06	151.24	CNY	7.247	-0.1	FTSE	7,487	+0.6	1.6	CRB	277.5	-0.1					
CAD	1.3667	-0.2			SGD	1.350	+0.1	DAX	15,748	+0.9	9.5	Wheat Chic.	588.5	-1.5					
NZD/AUD	0.9250	+0.2			IDR	15,534	-1.0	CAC 40	7,210	+0.3	8.6	Sugar	27.18	+0.0					
NZD/EUR	0.5555	+0.6			THB	35.54	+0.1	Nikkei	33,520	+2.5	19.6	Cotton	78.38	-0.4					
NZD/GBP	0.4853	+1.0			KRW	1,301	-2.1	Shanghai	3,073	+0.5	-1.5	Coffee	174.9	+2.0					
NZD/JPY	91.14	+0.9			TWD	31.96	-1.2	ASX 200	7,106	+1.4	-0.2	WM powder	3110	+0.3					
NZD/CAD	0.8240	+0.2			PHP	55.83	-0.4	NZX 50	11,353	+1.6	1.1	Australian Futures							
NZ TWI	70.81	+0.2										3 year bond	95.82	0.12					
												10 year bond	95.39	-0.06					
Interest Rates								NZ Government Bonds				NZ Swap Yields							
Rates				Swap Yields				Benchmark 10 Yr Bonds											
Cash	3Mth	2 Yr	10 Yr	Last	Net Day	Last	Net Day	Last	Net Day	Last	Net Day	Last	Net Day						
USD	5.50	5.65	4.76	4.20	USD	4.54	0.10	15-Apr-25	5.18	-0.09	1 year	5.57	-0.06						
AUD	4.35	4.40	4.45	4.90	AUD	4.53	-0.13	15-Apr-27	4.85	-0.16	2 year	5.19	-0.15						
NZD	5.50	5.64	5.19	4.84	NZD	4.99	-0.15	15-May-28	4.83	-0.16	5 year	4.75	-0.17						
EUR	4.00	4.00	3.52	3.12	GER	2.64	0.04	15-May-31	4.94	-0.16	7 year	4.76	-0.17						
GBP	5.25	5.36	4.76	4.06	GBP	4.23	0.08	14-Apr-33	4.99	-0.15	10 year	4.84	-0.17						
JPY	-0.01	-0.03	0.25	0.98	JPY	0.80	-0.06	15-May-41	5.19	-0.12	15 year	4.95	-0.17						
CAD	5.00	5.51	4.86	4.13	CAD	3.75	0.07	15-May-51	5.12	-0.11									

* 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 06:58

Source: Bloomberg

NZD exchange rates

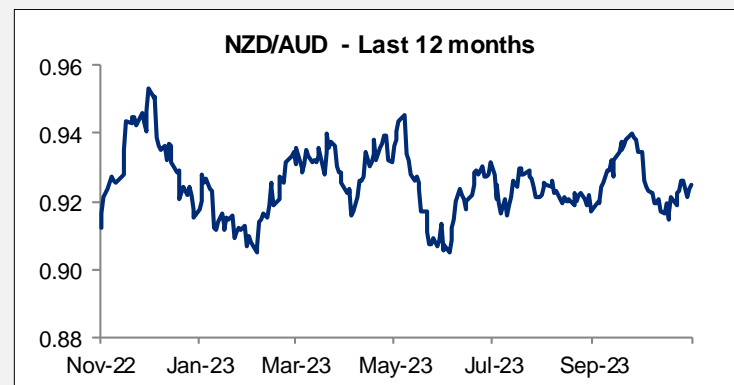
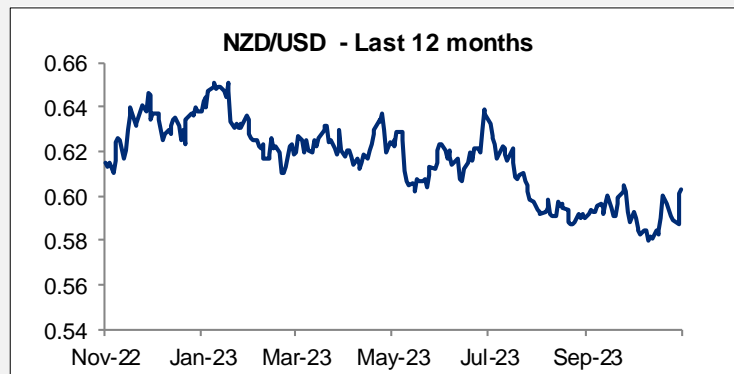
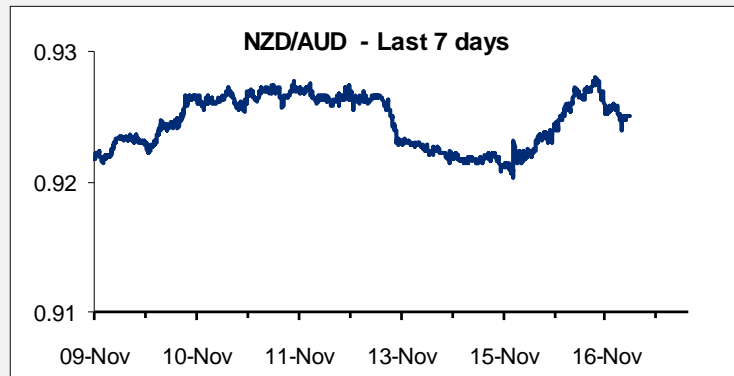
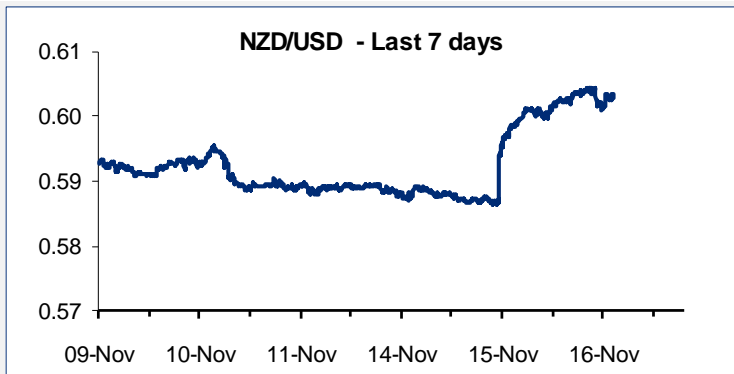
16/11/2023	6:59 am	Prev. NY close
USD	0.6029	0.6008
GBP	0.4853	0.4807
AUD	0.9250	0.9233
EUR	0.5555	0.5523
JPY	91.14	90.34
CAD	0.8240	0.8227
CHF	0.5351	0.5342
DKK	4.1436	4.1194
FJD	1.3721	1.3692
HKD	4.7070	4.6897
INR	50.13	50.07
NOK	6.5017	6.5380
PKR	173.67	172.92
PHP	33.66	33.68
PGK	2.2454	2.2376
SEK	6.3412	6.3637
SGD	0.8137	0.8104
CNY	4.3690	4.3575
THB	21.37	21.66
TOP	1.4143	1.4230
VUV	73.25	73.27
WST	1.6556	1.6365
XPF	66.85	66.54
ZAR	10.9743	10.9495

NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	0.20	0.50
3 Months	1.49	1.98
6 Months	1.54	2.67
9 Months	0.47	2.39
1 Year	-1.96	1.05

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-8.28	-7.54
3 Months	-24.42	-23.17
6 Months	-44.27	-41.15
9 Months	-60.11	-54.39
1 Year	-70.54	-63.19



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