

Research Markets Today

16 October 2023

Events Round-Up

NZ: Manufacturing PMI, Sep: 45.3 vs. 46.1 prev.
 NZ: Card spending (m/m%), Sep: -0.1 vs. 0.9 prev.
 CH: CPI (y/y%), Sep: 0.0 vs. 0.2 exp.
 CH: PPI (y/y%), Sep: -2.5 vs. -2.4 exp.
 CH: Exports (USD, y/y%), Sep: -6.2 vs. -8.0 exp.
 CH: Imports (USD, y/y%), Sep: -6.2 vs. -6.3 exp.
 EC: Industrial production (m/m%), Aug: 0.6 vs. 0.2 exp.
 US: U. of Mich. cons sentiment, Oct: 63.0 vs. 67.1 exp.
 US: U. of Mich. 5-10yr inflation exp, Oct: 3.0 vs 2.8 exp.

Good Morning

Rising investor risk aversion impacted global markets into the end of last week amid concerns about an escalation in the conflict between Israel and Hamas and the potential for it to spread more widely. Global equities fell – the MSCI world index ended down nearly 1% - and flows into safe haven assets picked up. The VIX measure of S&P implied volatility gained the most since March, US treasury yields decreased and the US dollar index moved higher.

In commodity markets, both oil and gold surged higher. Brent crude prices increased above \$90 a barrel, a daily gain of more than 5%, on concerns over potential supply disruptions should the conflict widen. This reverses some of the large fall from 1-year highs above \$97 at the beginning of October attributed to slower global growth and long market positioning by speculative accounts. Gold prices moved back above \$1,900 an ounce and are now 6% above the October lows.

In the US, the Michigan consumer sentiment index fell to 63.0 in October, which was below the median estimate of 67.2, and the lowest level since May. This is the third straight fall and can largely be attributed to the rise in gas prices as well as the pullback in equities. However, consumer spending has remained healthy despite weaker sentiment in recent months.

Within the Michigan survey, Five-to-10-year inflation expectations increased 0.2% to 3.0%. This is a continuation of the 2.7-to-3.1% range where this indicator has oscillated since January 2021 which is above its pre-Covid average of 2.5%. The US Federal Reserve would like to see lower inflation expectations. This measure is sensitive to the

current level of inflation and the recent decline should contribute to a retracement of longer-term expectations soon.

US treasury yields moved steadily lower on Friday amid safe haven demand which unwound some of the previous days large sell-off. 10-year yields declined to a low of 4.58%, down from a session high of 4.69%, before edging higher into the close. The front end underperformed in the rally with 2-year yields ending 1bp lower at 5.05%. The 2s/10s curve flattened to -44bp, down from a recent peak in October of -28bp. European government bond yields declined aligned with the move in treasuries with 10-year bunds down 5bps to 2.73%.

Fed Bank of Philadelphia President Patrick Harker said disinflation is under way. He said that economic and financial conditions are evolving as expected, that policy rates are restrictive, and that he favours holding interest rates where they are, barring a sharp change in data. After a busy week of commentary from Fed officials, futures market pricing suggests there is little chance a rate hike at the early November meeting. This compares with a near 30% probability of a 25bp hike a week ago.

Chinese consumer prices remained flat year-on-year in September while producer prices declined 2.5% amid lingering concerns about weak demand. Both measures were marginally below consensus estimates. Data this week on industrial production, retail sales as well as Q3 GDP will provide a clearer picture of the impact from the Government's incremental stimulus measures. The PBOC is expected to leave the medium-term lending facility rate steady at 2.5% today.

The risk-off tone was reflected in currency markets. The US dollar gained as did other haven currencies such as the Swiss franc and the Japanese Yen. EUR/CHF fell almost 1% to the lowest level this year with the franc outperforming within G10 currencies. The Canadian dollar and Norwegian krone benefited from the large gain in oil prices.

The Australasian currencies extended losses overnight Friday. NZD/USD fell close to 0.5% and closed on the weekly lows near 0.5885. The 2023 lows reached in September at 0.5860 will form key near-term support. NZD/AUD ended marginally lower at 0.9345. The general election results in the weekend, which point to National and Act forming a coalition government, subject to the

counting of special votes, is unlikely to materially impact the currency or rates markets to start the week.

NZ government bonds moved higher in yield in the local session on Friday with 10-year bonds closing up 9bps at 5.44%. The front end outperformed with the 2s/10s curve steepening to -20bp. There are close to NZ\$750 million of coupon payments today and there will likely be some reinvestment flows taking place. Australian 3-year and 10-year bond futures are close to 5bps lower from the local close on Friday, and combined with the move in treasuries, suggest a downward bias in NZ yields on the open.

The Performance of Services Index for September is released today. The Performance of Manufacturing Index (PMI) fell further into contractionary territory on Friday

and reached the lowest level of activity for a non-COVID affected month since May 2009. The key domestic data this week will be Q3 CPI data tomorrow.

stuart.ritson@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
NZ	Performance Services Index	Sep	47.1	10:30	
CH	1-Yr Medium-Term Lending Facility Rate	Oct 15	2.5	2.5	14:20
US	Empire Manufacturing	Oct	-5	1.9	01:30
US	Fed's Harker Speaks on the Economic Outlook				03:30

Source: Bloomberg, BNZ

Indicative overnight ranges (*)							Other FX		Equities				Commodities**		
	Last	% Day	Low	High		Last	% Day	Major Indices		Price		Australian Futures			
									Last	% Day	% Year	Last	Net Day		
NZD	0.5886	-0.7	0.5886	0.5926	CHF	0.9020	-0.7	S&P 500	4,328	-0.5	20.8	Oil (Brent)	90.89	+5.7	
AUD	0.6296	-0.3	0.6286	0.6332	SEK	4.100	+0.3	Dow	33,670	+0.1	13.6	Oil (WTI)	87.69	+5.8	
EUR	1.0509	-0.2	1.0496	1.0559	NOK	10.947	-0.3	Nasdaq	13,407	-1.2	29.9	Gold	1927.4	+3.1	
GBP	1.2142	-0.3	1.2123	1.2225	HKD	7.825	+0.0	Stoxx 50	4,136	-1.5	22.3	HRC steel	695.0	-0.1	
JPY	149.57	-0.2	149.46	149.78	CNY	7.305	-0.0	FTSE	7,600	-0.6	10.8	CRB	284.0	+2.1	
CAD	1.3658	-0.2			SGD	1.369	-0.1	DAX	15,187	-1.5	22.1	Wheat Chic.	606.3	+0.8	
NZD/AUD	0.9348	-0.4			IDR	15,682	-0.1	CAC 40	7,004	-1.4	18.1	Sugar	27.03	+2.6	
NZD/EUR	0.5601	-0.5			THB	36.26	-0.4	Nikkei	32,316	-0.5	19.3	Cotton	86.06	+1.3	
NZD/GBP	0.4847	-0.5			KRW	1,350	+0.9	Shanghai	3,088	-0.6	0.5	Coffee	154.9	+3.8	
NZD/JPY	88.03	-0.9			TWD	4.10	+0.3	ASX 200	7,051	-0.6	4.3	WM powder	3150	-0.3	
NZD/CAD	0.8038	-0.9			PHP	56.81	+0.2	NZX 50	11,266	-0.2	3.7	3 year bond	96.05	-0.04	
NZ TWI	70.25	-0.6										10 year bond	95.56	0.05	

Interest Rates							NZ Government Bonds			NZ Swap Yields			
	Rates		Swap Yields		Benchmark 10 Yr Bonds		Last	Net Day	Last	Last	Last		
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day							
USD	5.50	5.66	4.94	4.30	USD	4.61	-0.08	15-Apr-25	5.64	0.04	1 year	5.85	0.01
AUD	4.10	4.15	4.20	4.70	AUD	4.46	0.09	15-Apr-27	5.40	0.06	2 year	4.10	0.03
NZD	4.10	5.70	5.65	5.19	NZD	5.44	0.09	15-May-28	5.36	0.06	5 year	5.26	0.08
EUR	4.00	3.97	3.76	3.31	GER	2.74	-0.05	15-May-31	5.41	0.08	7 year	5.22	0.09
GBP	5.25	5.40	5.10	4.28	GBP	4.39	-0.04	14-Apr-33	5.44	0.09	10 year	4.10	0.09
JPY	-0.02	-0.03	0.19	0.93	JPY	0.76	0.00	15-May-41	5.65	0.09	15 year	4.10	0.09
CAD	5.00	5.59	5.34	4.42	CAD	3.97	-0.07	15-May-51	5.63	0.09			

* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer

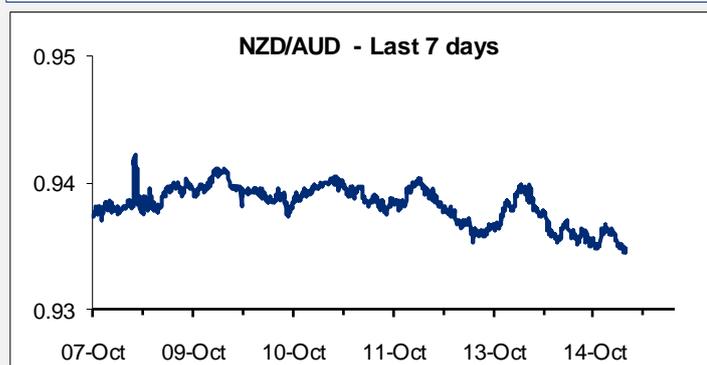
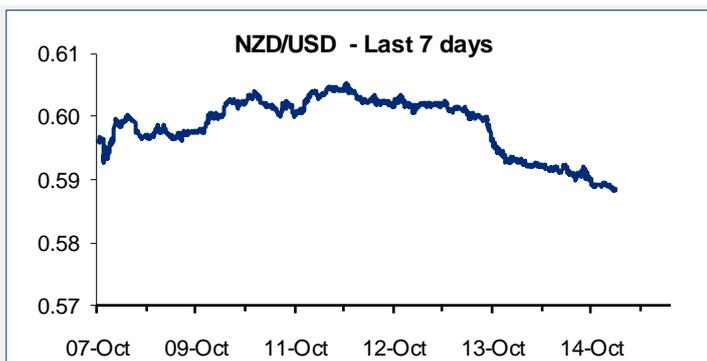
** All near futures contracts, except CRB. Metals prices are CME.

Rates at NY close

Source: Bloomberg

NZD exchange rates

13/10/2023	NY close	Prev. NY close
USD	0.5886	0.5927
GBP	0.4847	0.4868
AUD	0.9348	0.9387
EUR	0.5601	0.5630
JPY	88.03	88.79
CAD	0.8038	0.8114
CHF	0.5308	0.5384
DKK	4.1761	4.1980
FJD	1.3510	1.3600
HKD	4.6048	4.6372
INR	2.41	49.34
NOK	6.4424	6.5059
PKR	163.40	165.12
PHP	33.43	33.59
PGK	2.1716	2.1871
SEK	6.4920	6.5202
SGD	0.8059	0.8121
CNY	4.2990	4.3303
THB	21.29	21.58
TOP	1.3779	1.3806
VUV	72.03	72.46
WST	1.6287	1.6285
XPF	66.44	66.86
ZAR	11.1828	11.2714



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	0.10	0.60
3 Months	0.80	1.36
6 Months	-0.47	2.26
9 Months	-4.03	-1.48
1 Year	-10.16	-7.10

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-10.84	-9.73
3 Months	-32.39	-31.01
6 Months	-63.72	-57.87
9 Months	-93.32	-86.62
1 Year	-121.56	-112.32

Contact Details

BNZ Research

Stephen Toplis

Head of Research
+64 4 474 6905

Craig Ebert

Senior Economist
+64 4 474 6799

Doug Steel

Senior Economist
+64 4 474 6923

Jason Wong

Senior Markets Strategist
+64 4 924 7652

Stuart Ritson

Senior Interest Rate Strategist
+64 9 9248601

Mike Jones

BNZ Chief Economist
+64 9-956 0795

Main Offices

Wellington

Level 4, Spark Central
42-52 Willis Street
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

Auckland

80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

Christchurch

111 Cashel Street
Christchurch 8011
New Zealand
Toll Free: 0800 854 854

This document has been produced by Bank of New Zealand (BNZ). BNZ is a registered bank in New Zealand and is only authorised to offer products and services to customers in New Zealand.

Analyst Disclaimer: The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed.

BNZ maintains an effective information barrier between the research analysts and its private side operations. Private side functions are physically segregated from the research analysts and have no control over their remuneration or budget. The research functions do not report directly or indirectly to any private side function. The Research analyst might have received help from the issuer subject in the research report.

New Zealand: The information in this publication is provided for general information purposes only, and is a summary based on selective information which may not be complete for your purposes. This publication does not constitute any advice or recommendation with respect to any matter discussed in it, and its contents should not be relied on or used as a basis for entering into any products described in it. Bank of New Zealand recommends recipients seek independent advice prior to acting in relation to any of the matters discussed in this publication.

Any statements as to past performance do not represent future performance, and no statements as to future matters are guaranteed to be accurate or reliable.

Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever which may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

USA: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.