

Research Markets Today

17 January 2024

Events Round-Up

NZ: Qtrly survey of business opinion, Q4
 AU: Westpac consumer confidence, Jan: 81.0 vs. 82.1 prev.
 UK: Wkly earnings ex bonus (3m/y%), Nov: 6.6 vs. 6.6 exp.
 GE: ZEW survey expectations, Jan: 15.2 vs. 11.7 exp.
 US: Empire manufacturing, Jan: -43.7 vs. -5.0 exp.
 CA: CPI (y/y%), Dec: 3.4 vs. 3.4 exp.
 CA: CPI Core (avg trim/median y/y%), Dec: 3.7 vs. 3.4 exp.

Good Morning

US Treasury yields are much higher on the day, with the lift during Asia extended and sustained overnight following comments from Fed Governor Waller, who pushed back against market expectations, arguing for a “careful” rather than rapid easing in policy. The USD is broadly stronger, seeing NZD extend recent losses to below 0.6140. Equity markets are modestly weaker.

During the Asia trading session there were some nerves about what respected Fed Governor Waller would say overnight on monetary policy, resulting in a modest lift in Treasury yields and a stronger USD. Sentiment might also have been affected by Donald Trump’s convincing victory in Iowa. Trump took one small step towards becoming the next US President, with a commanding win in the first Republican caucus, as the polls suggested. The breakdown of voting showed strong wins across almost all demographics, which highlighted his widespread support amongst Republicans, and he more than doubled the widest margin of victory in the State, an impressive result.

Overnight, Fed Governor Waller said “I am becoming more confident that we are within striking distance of achieving a sustainable level of 2% PCE inflation”, which will allow rate cuts this year. But going against current market expectations for an early start to the easing cycle and more than six rate cuts priced for this year, he suggested “when the time is right to begin lowering rates, I believe it can and should be lowered mechanically and carefully...with economic activity and labour markets in good shape and inflation coming down gradually to 2%, I see no reason to move as quickly or cut as rapidly as in the past.”

US Treasury yields are currently up 10-13bps across the curve, with a steepening bias, taking the 10-year rate to

4.07%, towards its high for the year. Expectations for a rate cut as soon as March has been pared back down to 17bps. At the end of the day, the data will determine policy actions and there are still two more CPI prints ahead of that meeting.

In economic news, the US empire manufacturing survey, which measures manufacturing activity in New York, showed business conditions slumping to minus 43.7, its lowest level since May 2020, against expectations of a lift to minus 5.0%. The series is volatile and the improvement in the six-month outlook to 18.8 negated the shocking headline figure.

UK labour market data showed slower wage inflation, with wages excluding bonuses rising by 6.6% y/y in the three months to November, as expected, while the headline figure showed an even larger drop. While further signs of slower wage inflation alongside the recent sharp drop in CPI inflation support calls for easier BoE monetary policy, there was little change in the market’s projected rate path. However, UK gilts showed little change in rates on the day, against the backdrop of much higher Treasury yields.

Canada annual CPI inflation lifted to 3.4% y/y, as expected, but the core measures were 0.3% higher than expected, with the average of the trim and median at 3.65%. This saw the market push back BoC rate cut expectations, a 13bps lift in Canada’s 2-year rate, a greater move than seen elsewhere, and support for CAD, showing an insignificant fall against the strong USD overnight.

On that note, the USD shows broadly based gains for the day, with strength during the NZ trading session extending overnight, driven by higher US rates against more modest moves seen across Europe. The DXY index is up a chunky 0.9% for the day., The NZD is currently trading near its low for the day below 0.6140. Ditto for the AUD, which is below 0.6590. NZD crosses are flat to modestly lower.

The overnight GDT dairy auction showed a 2.3% lift in the price index, continuing its upward trend, with the index now up 25% from the mid-August low and up 3% on an annual basis. Whole milk powder prices rose 1.7% while skim milk powder rose 1.2%.

The domestic rates market saw higher yields, driven by global forces, with NZGBs up 3-5 bps and swaps up about 3bps. There was little reaction to the quarterly survey of

business opinion, which showed a sharp lift in confidence and activity indicators, as indicated by the timelier ANZ business outlook survey, reflecting the election of a more business-friendly government. The value-add of the survey was further signs of disinflationary pressure in the economy, with the selling price indicator falling to +37%, now only modestly above the long-term average, while finding labour has become outright easy, the data portending a sharp lift in the unemployment rate.

In the day ahead, after NZ electronic card transactions data are released this morning, top-tier releases include China activity data, UK CPI and US retail sales. China Q4 GDP is expected to print at 5.3% y/y and 5.2% on an annual average basis, surpassing the government's 5% target. Premier Li said in Davos overnight that the economy grew around 5.2%, meaning the result will be in line with market expectations. Annual inflation in the UK is expected to show a further drop, with the core figure down to 4.9% y/y. US retail sales are expected to show a modest lift for the headline and core figures.

jason.k.wong@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
NZ	Card spending total (m/m%)	Dec	0.8	10:45	
CH	GDP (y/y%)	Q4	5.3	4.9	15:00
CH	Industrial production (y/y%)	Dec	6.7	6.6	15:00
CH	Fixed assets investment (ann%)	Dec	2.9	2.9	15:00
CH	Retail sales (y/y%)	Dec	8.0	10.1	15:00
UK	CPI (y/y%)	Dec	3.8	3.9	20:00
UK	CPI core (y/y%)	Dec	4.9	5.1	20:00
US	Retail sales (m/m%)	Dec	0.4	0.3	02:30
US	Retail sales ex auto, gas	Dec	0.3	0.6	02:30
US	Industrial production (m/m%)	Dec	0.0	0.2	03:15
US	NAHB housing market index	Jan	39	37	04:00
EA	ECB's Lagarde speaks in Davos				04:15

Source: Bloomberg, BNZ

Currencies							
Indicative overnight ranges (*)				Other FX			
	Last	% Day	Low	High		Last	% Day
NZD	0.6134	-1.1	0.6132	0.6180	CHF	0.8618	+0.7
AUD	0.6582	-1.2	0.6582	0.6633	SEK	10.445	+1.2
EUR	1.0865	-0.8	1.0863	1.0927	NOK	10.478	+1.2
GBP	1.2631	-0.8	1.2621	1.2687	HKD	7.826	+0.0
JPY	147.25	+1.0	146.00	147.27	CNY	7.188	+0.2
CAD	1.3489	+0.4			SGD	1.343	+0.7
NZD/AUD	0.9319	+0.1			IDR	15,593	+0.2
NZD/EUR	0.5646	-0.3			THB	35.44	+1.4
NZD/GBP	0.4856	-0.3			KRW	1,332	+0.9
NZD/JPY	90.32	-0.0			TWD	31.44	+0.6
NZD/CAD	0.8274	-0.6			PHP	55.83	+0.1
NZ TWI	71.64	-0.5					

Equities				
Major Indices				
	Last	% Day	% Year	
S&P 500	4,761	-0.5	19.1	
Dow	37,304	-0.7	8.7	
Nasdaq	14,896	-0.5	34.5	
Stoxx 50	4,447	-0.2	7.0	
FTSE	7,558	-0.5	-3.8	
DAX	16,572	-0.3	9.5	
CAC 40	7,398	-0.2	5.0	
Nikkei	35,619	-0.8	36.3	
Shanghai	2,894	+0.3	-10.2	
ASX 200	7,415	-1.1	0.4	
NZX 50	11,771	-0.0	-0.9	
VIX Index	13.96	+5.4	-23.9	

Commodities		
Price (Near futures, except CRB)		
	Last	Net Day
Oil (Brent)	77.95	-0.2
Oil (WTI)	72.10	-0.8
Gold	2031.2	-1.0
HRC steel	1073.0	-0.3
CRB	264.4	+0.1
Wheat Chic.	593.8	-2.7
Sugar	22.35	+3.4
Cotton	81.09	-0.3
Coffee	185.0	+2.8
WM powder	3295	-0.8
Australian Futures		
3 year bond	96.30	-0.07
10 year bond	95.79	-0.09

Interest Rates							
	Rates				Swap Yields		
	Cash	3Mth	2 Yr	10 Yr			
USD	5.50	5.58	4.08	3.68	USD	4.07	0.13
AUD	4.35	4.35	4.03	4.46	AUD	4.15	0.07
NZD	5.50	5.64	4.71	4.38	NZD	4.55	0.04
EUR	4.00	3.93	2.92	2.65	GER	2.26	0.03
GBP	5.25	5.31	4.14	3.58	GBP	3.80	0.00
JPY	-0.01	-0.03	0.16	0.78	JPY	0.60	0.03
CAD	5.00	5.41	4.32	3.68	CAD	3.36	0.14
NZ Government Bonds							
	Last		Chg		NZ BKBM and Swap Yields		
						Last	Chg
15-May-26	4.49		0.03		BKBM 1-mth	5.58	0.00
15-Apr-27	4.36		0.03		BKBM 3-mth	5.64	0.00
15-May-28	4.29		0.03		1 year	5.29	0.01
20-Apr-29	4.29		0.04		2 year	4.71	0.03
15-May-31	4.45		0.04		3 year	4.42	0.02
15-May-32	4.50		0.05		5 year	4.25	0.03
14-Apr-33	4.55		0.04		7 year	4.27	0.03
15-May-34	4.62		0.04		10 year	4.38	0.03
15-May-41	4.90		0.04		15 year	4.52	0.04
15-May-51	4.89		0.04				

NZ Inflation-Indexed Bonds			
	Last	Net Day	
Sep-30	2.34	0.04	
Sep-35	2.62	0.06	
Sep-40	2.85	0.06	

* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer
Rates are as of: NZT 06:51
Source: Bloomberg

NZD exchange rates

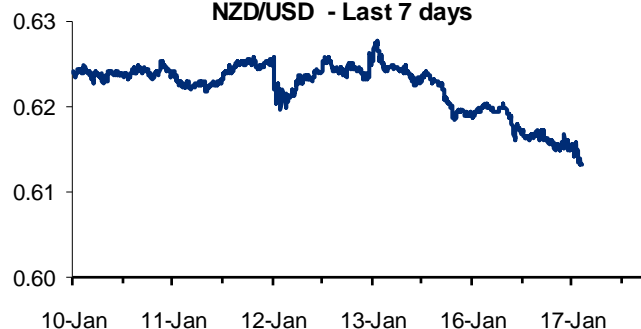
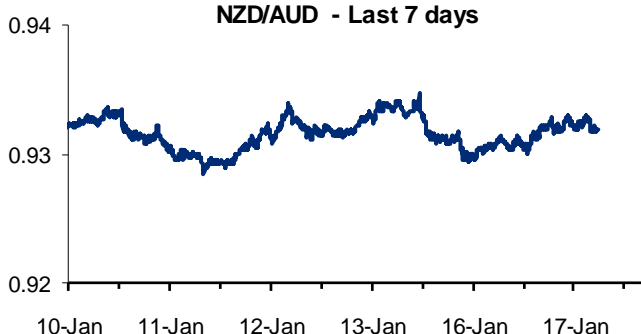
17/01/2024	6:52 am	Prev. NY close
USD	0.6134	0.6200
GBP	0.4856	0.4872
AUD	0.9319	0.9309
EUR	0.5646	0.5662
JPY	90.32	90.35
CAD	0.8274	0.8325
CHF	0.5286	0.5306
DKK	4.2106	4.2229
FJD	1.3710	1.3855
HKD	4.8004	4.8507
INR	50.96	51.39
NOK	6.4271	6.4158
PKR	171.94	174.29
PHP	34.25	34.59
PGK	2.2845	2.3152
SEK	6.4069	6.3993
SGD	0.8238	0.8267
CNY	4.4089	4.4463
THB	21.70	21.67
TOP	1.4229	1.4395
VUV	73.35	74.10
WST	1.6528	1.6719
XPF	67.17	67.55
ZAR	11.6393	11.5786

NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	0.17	0.57
3 Months	0.27	0.78
6 Months	-3.38	-2.18
9 Months	-10.07	-8.02
1 Year	-18.08	-15.07

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-10.06	-9.18
3 Months	-26.08	-24.89
6 Months	-47.56	-44.34
9 Months	-62.84	-57.41
1 Year	-75.00	-66.45

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

Contact Details

BNZ Research

Stephen Toplis

Head of Research
+64 4 474 6905

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 2, BNZ Place
1 Whitmore 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

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