

# Research Markets Today

17 October 2023

## Events Round-Up

NZ: Performance of services index, Sep: 50.7 vs. 47.7 prev.

US: Empire manufacturing, Oct: -4.6 vs. -6.0 exp.

## Good Morning

Newsflow has been light to start the week but the market has adopted a “risk-on” tone, after heading into the weekend on a cautious note that had seen the VIX index close above 19 and sending our risk appetite index back below 50% at the end of last week.

Diplomatic attempts to prevent an escalation of the Israeli-Hamas war have stepped up, with President Biden weighing a trip to Israel and Secretary of State Blinken returning to Israel following talks with Arab officials. German Chancellor Scholz is preparing to visit later today. Israel is still preparing a ground assault on Gaza. Critically for the markets, Iran has yet to enter the conflict but has reiterated a warning that a ground attack on Gaza will lead to the war spreading. Iran’s foreign minister warned “the time for political solutions is running out”.

After closing last week on a soft note with two down days, the S&P500 has almost fully recovered those losses and is currently up close to 1% with all sectors in positive territory. The VIX index has fallen back down to a 17 handle. The Euro Stoxx 600 index closed up 0.2%.

Oil prices are down around 1%, with Brent crude trading just below USD90. The key European gas benchmark is down 10% after surging by 41% last week.

US Treasury yields have pushed steadily higher overnight with the 10-year rate trading at 4.71%, 1bp shy of its high for the session, up 10bps from last week’s close and 6bps from yesterday’s NZ close. The curve shows a steepening bias, with the 2-year rate up 4bps.

The economic calendar has been light. The Empire manufacturing survey was broadly in line with expectations, dipping to minus 4.6%. Apart from the war, the focus for the Treasuries market this week will be on US retail sales data tonight and Fed Powell’s speech to the Economic Club of NY later in the week, to see if he backs up the view of his colleagues that the recent tightening in financial conditions is doing some of the work for the Fed

in the battle against inflation, reducing the need for further hikes.

US 10-year rates have moved up more than Europe, with Germany’s 10-year rate 5bps and the lift in the UK 10-year rate just under 10bps, but the USD is still broadly weaker, reflecting higher risk appetite. Of the key majors, the NZD and AUD have performed the best, following their underperformance last week, both up 0.7% from last week’s close. This sees the NZD at 0.5925 and the AUD at 0.6340, with the NZD/AUD cross flat at 0.9350.

The NZD opened the week with a kneejerk lift higher after Saturday’s election result – NZD/AUD getting close to 94 – but that wasn’t justified in our view as the outcome was in line with the pre-election polls – a change to a National/ACT government with a high chance of support for NZ First being required after special votes are counted. As the dust has settled, NZD crosses against AUD, GBP and EUR are all lower from the levels traded early Monday morning. The sustained higher level against the USD and JPY simply reflect the risk-on backdrop. NZD/JPY is up 0.7% to 88.6, with USD/JPY flat.

There also wasn’t any notable post-election impact for the domestic rates market. NZ spreads against the US and Australia were down slightly, but these ebb and flow on a daily basis anyway. NZGBs were down 2-4bps across the curve with a flattening bias. The 2-year swap rate closed up 1bp to 5.68% and the 10-year rate closed down 3bps to 5.21%. It’s far too early to judge what the new government’s fiscal settings will mean for inflation or monetary policy. Since the NZ close, the Australian 10-year bond future is up 4bps in yield terms, a bit less than seen for the US.

In the day ahead focus turns to NZ’s Q3 CPI report, where the consensus sees higher petrol prices driving a strong 1.9% q/q increase in the CPI, resulting in little progress in bringing annual inflation down, expected to be 5.9% y/y. Local economists at the four major trading banks sit above the consensus, more in line with the RBNZ’s estimate of 2.1% q/q and 6.0% y/y. For the policy outlook, the core measures will matter more than the headline increase, with the consensus seeing non-tradeables inflation sticky at 1.8% q/q.

The global economic calendar is heavy tonight, with key releases being UK wages, US retail sales, and Canadian CPI

reports. Fed speakers remain in force, including Williams and Barkin.

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### Coming Up

		Period	Cons.	Prev.	NZT
NZ	CPI (q/q%)	Q3	1.9	1.1	10:45
NZ	CPI (y/y%)	Q3	5.9	6	10:45
AU	RBA Minutes of Oct. policy meeting				13:30
UK	Unemployment rate (%)	Aug	4.3	4.3	19:00
UK	Earnings ex bonuses (3m/y%)	Aug	7.8	7.8	19:00
GE	ZEW survey expectations	Oct	-9.5	-11.4	22:00
US	Fed's Williams at Economic Club of NY				01:00
US	Retail sales (m/m%)	Sep	0.3	0.6	01:30
US	Retail sales ex auto, gas (m/m%)	Sep	0.1	0.2	01:30
CA	CPI (y/y%)	Sep	4.0	4.0	01:30
CA	CPI core (avg y/y%)	Sep	3.9	4.0	01:30
US	Industrial production (m/m%)	Sep	0.0	0.4	02:15
US	NAHB housing market index	Oct	44	45	03:00
US	Fed's Barkin speaks on the economic outlook				03:45

Source: Bloomberg, BNZ

Indicative overnight ranges (*)					Other FX			Equities				Commodities**		
	Last	% Day	Low	High		Last	% Day	Major Indices			Price			
								Last	% Day	% Year		Last	Net Day	
NZD	0.5928	+0.7	0.5907	0.5929	CHF	0.9001	-0.2	S&P 500	4,374	+1.1	22.1	Oil (Brent)	89.88	-1.1
AUD	0.6342	+0.7	0.6312	0.6345	SEK	10.913	-1.1	Dow	34,025	+1.1	14.8	Oil (WTI)	86.96	-0.8
EUR	1.0555	+0.4	1.0524	1.0555	NOK	10.932	-0.2	Nasdaq	13,575	+1.3	31.5	Gold	1921.1	-0.5
GBP	1.2213	+0.6	1.2143	1.2213	HKD	7.819	-0.1	Stoxx 50	4,150	+0.3	22.7	HRC steel	698.0	+0.4
JPY	149.60	+0.0	149.41	149.76	CNY	7.311	+0.1	FTSE	7,631	+0.4	11.3	CRB	284.0	+2.1
CAD	1.3612	-0.4			SGD	1.368	-0.1	DAX	15,238	+0.3	22.5	Wheat Chic.	605.0	-0.2
NZD/AUD	0.9347	+0.0			IDR	15,721	+0.2	CAC 40	7,022	+0.3	18.4	Sugar	27.05	-0.1
NZD/EUR	0.5616	+0.3			THB	36.25	-0.0	Nikkei	31,659	-2.0	18.2	Cotton	85.39	-0.7
NZD/GBP	0.4854	+0.2			KRW	1,354	+0.3	Shanghai	3,074	-0.5	-0.4	Coffee	154.2	-0.5
NZD/JPY	88.68	+0.8			TWD	32.29	+0.2	ASX 200	7,027	-0.3	5.4	WM powder	3140	-0.3
NZD/CAD	0.8069	+0.4			PHP	56.79	-0.0	NZX 50	11,185	-0.7	3.7	<b>Australian Futures</b>		
NZ TWI	70.55	+0.6										3 year bond	96.04	-0.01
												10 year bond	95.48	-0.08
<b>Interest Rates</b>														
	Rates		Swap Yields		Benchmark 10 Yr Bonds		NZ Government Bonds			NZ Swap Yields				
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day	Last			Last	Last			
USD	5.50	5.66	4.97	4.39	USD	4.71	0.10	15-Apr-25	5.64	0.00	1 year	5.88	0.03	
AUD	4.10	4.15	4.22	4.78	AUD	4.46	-0.01	15-Apr-27	5.38	-0.02	2 year	5.68	0.01	
NZD	5.50	5.71	5.68	5.21	NZD	5.40	-0.04	15-May-28	5.34	-0.02	5 year	5.25	-0.00	
EUR	4.00	3.99	3.76	3.36	GER	2.79	0.05	15-May-31	5.37	-0.03	7 year	5.20	-0.01	
GBP	5.25	5.41	5.16	4.38	GBP	4.48	0.10	14-Apr-33	5.40	-0.04	10 year	5.21	-0.03	
JPY	-0.03	-0.03	0.20	0.95	JPY	0.76	0.00	15-May-41	5.61	-0.04	15 year	5.27	-0.04	
CAD	5.00	5.59	5.36	4.50	CAD	4.05	0.08	15-May-51	5.60	-0.04				

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

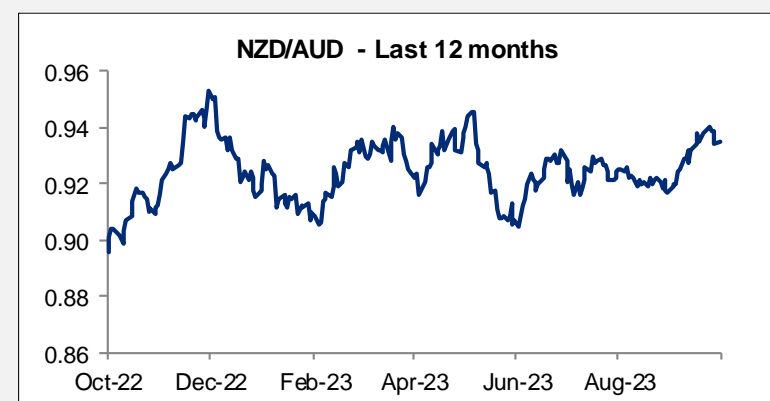
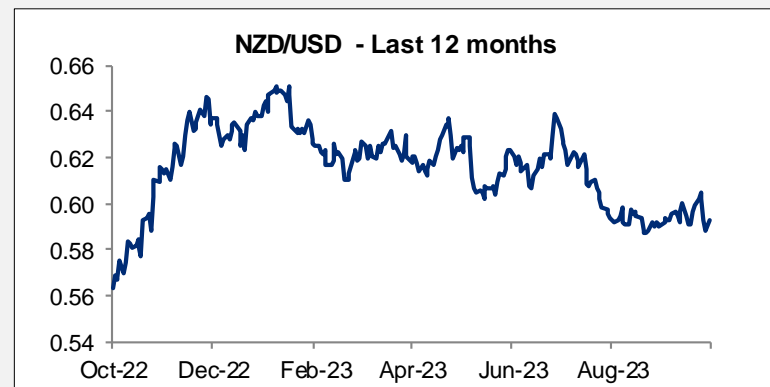
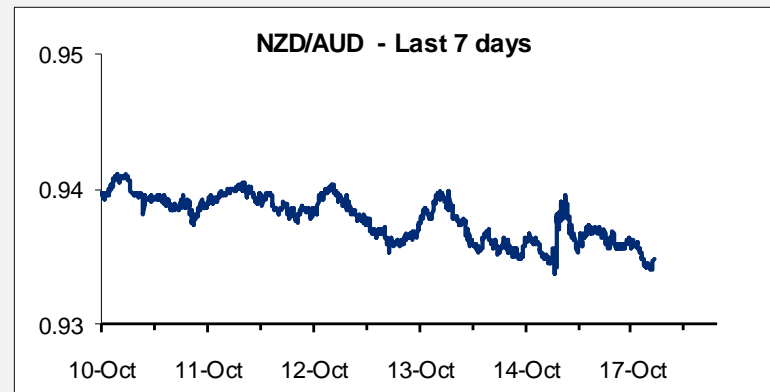
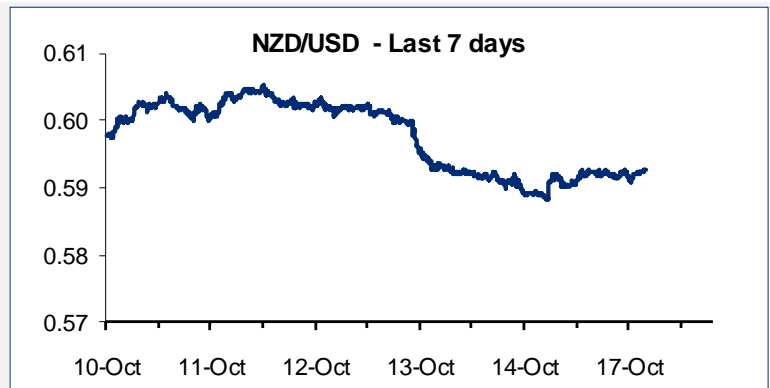
\*\* All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:56

Source: Bloomberg

**NZD exchange rates**

16/10/2023	6:56 am	Prev. NY close
USD	0.5928	0.5885
GBP	0.4854	0.4846
AUD	0.9347	0.9347
EUR	0.5616	0.5599
JPY	88.68	88.02
CAD	0.8069	0.8039
CHF	0.5336	0.5308
DKK	4.1900	4.1761
FJD	1.3615	1.3510
HKD	4.6348	4.6048
INR	49.37	49.00
NOK	6.4805	6.4424
PKR	164.08	163.40
PHP	33.67	33.43
PGK	2.1875	2.1716
SEK	6.4692	6.4920
SGD	0.8108	0.8059
CNY	4.3340	4.2990
THB	21.52	21.29
TOP	1.3896	1.3779
VUV	73.04	72.03
WST	1.6357	1.6287
XPF	66.78	66.44
ZAR	11.1224	11.1828



**NZD/USD Forward Points**

	BNZ buys NZD	BNZ sells NZD
1 Month	0.16	0.59
3 Months	0.85	1.36
6 Months	0.00	1.25
9 Months	-4.21	-2.07
1 Year	-11.01	-8.00

**NZD/AUD Forward points**

	BNZ buys NZD	BNZ Sells NZD
1 Month	-11.15	-10.20
3 Months	-31.43	-30.16
6 Months	-62.29	-59.10
9 Months	-93.02	-87.48
1 Year	-122.61	-113.57

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