

Research Markets Today

18 October 2023

Events Round-Up

NZ: CPI (q/q%), Q3: 1.8 vs. 1.9 exp.

NZ: CPI (y/y%), Q3: 5.6 vs. 5.9 exp.

UK: Earnings ex bonuses (3m/y%), Aug: 7.8 vs. 7.8 exp.

US: Retail sales (m/m%), Sep: 0.7 vs. 0.3 exp.

US: Retail sales ex auto, gas (m/m%), Sep: 0.6 vs. 0.1 exp.

CA: CPI (y/y%), Sep: 3.8 vs. 4.0 exp.

CA: CPI core (avg y/y%), Sep: 3.8 vs. 3.9 exp.

US: Industrial production (m/m%), Sep: 0.3 vs. 0.0 exp.

US: NAHB housing market index, Oct: 40 vs. 44 exp.

Good Morning

There has been plenty of news to digest. The NZD and AUD are at opposite ends of the leaderboard for the day after a weaker than expected NZ CPI print and more hawkish than expected RBA meeting minutes, seeing narrower NZ-Australia rate spreads and NZD/AUD down nearly a cent. Much stronger than expected US retail sales drove higher Treasury yields, but the blip up in the USD was short-lived, speaking to long USD positioning. There was also a flash crash in USD/JPY after a Bloomberg report on upcoming BoJ deliberations.

The key market move overnight has been another chunky lift in US Treasury yields, driven by relentless positive economic surprises, continuing to defy the narrative that the US economy could be heading for trouble. US retail sales were much stronger than expected, the headline and ex auto and gas measures rising by 0.7% m/m and 0.6% m/m respectively in September, the latter above the 0.1% expected and with a small upside revision to prior data. Real private consumption is on track to print around a 4% annualised rate for Q3.

Industrial production also positively surprised, rising 0.3% m/m, and signalling a manufacturing sector in recovery mode. Going against the grain, the NAHB housing index continued to fall, down for a third successive month to 40, with builders nervous as higher interest rates bite and mortgage applications tumble.

The strong data keep alive the chance of another possible Fed hike this cycle, but seen to be more likely at the December meeting or the end of January (60% chance by

then), rather than the meeting in a couple of weeks. The US 2-year rate is up 12bps to 5.22%, a fresh cycle high, with the 10-year rate up 14bps to 4.84%, just shy of the peak seen earlier this month.

Of interest, the USD showed a knee-jerk rise after the strong retail sales data but the move wasn't sustained and the DXY index is flat on the day. That the USD hasn't been able to capitalise on the recent run of strong US data, including non-farm payrolls earlier this month, reflects already long speculative positioning and supports the view that the peak for the cycle might have been seen early October.

Canadian CPI figures for September slightly undershot expectations, with the headline rate falling to 3.8% and the average of the trimmed mean and weighted median core measures down to 3.75%. The softer print reduced the chance of the BoC hiking again next week from 45% to 15% on market pricing. Canadian rates didn't follow the move higher in US Treasury yields but there was little evident damage done to CAD, with the currency only modestly weaker for the day.

In other market moving news, Bloomberg reported that the BoJ is likely to discuss raising its inflation projection for FY23 and FY24 at its policy meeting later this month, extending the period in which it sees prices hitting or exceeding its 2% goal – that would mean inflation at or above 2% for three consecutive years, a move that could fuel speculation over policy normalisation. USD/JPY fell almost 90pips on that report, trading down to 148.85 before sharply reversing course and now back around 149.80. The sharp move spoke to large short-yen positioning and sensitivity to any report that could see the BoJ backtrack from its ultra-easy policy stance. NZD/JPY fell to as low as 87.7 and currently sits at 88.3.

UK wages growth showed signs of some easing in pressures, with the headline figure down to 8.1% y/y in the three months to August from 8.5% previously and the ex-bonuses figure down to 7.8%, from an upwardly revised 7.9%. The data helped support the view that the BoE won't probably hike in early November, although CPI data released tonight will also be keenly awaited.

Yesterday, NZ's Q3 CPI report showed notably lower annual inflation of 5.6% compared to the RBNZ's estimate of 6.0%. All key core inflation measures conveyed a picture

of weaker underlying inflation pressure, with the average of four measures published by Stats NZ (10% and 30% trimmed means, weighted median and CPI ex food and energy), down to an eighteen-month low of 5.3%, after spending the past four quarters at, or above, the 6% mark. The RBNZ's core measure based on its sectoral factor model fell a chunky 0.5 percentage points to 5.2% – pre-COVID, this usually slow-moving beast rarely moved by more than 0.1 ppt over a quarter.

The data supported the RBNZ's "neutral" policy outlook, believing that it has done enough tightening to bring inflation back down to target and the market priced out some chance of further tightening. However, the market still prices a near-even chance of a 25bps hike by February, down from a 75% chance.

The data supported lower short-term rates, with NZ's 2-year swap rate closing down 5bps to 5.63% and the 5-year rate down 1bp to 5.24%. The steeper curve was accentuated by upward global forces at the longer end of the curve, with the 10-year rate up 4bps to 5.25%, marking a chunky 9bps steepening of the 2s10s curve. NZGBs showed a similar profile.

The RBA October meeting minutes were more hawkish than recent communications. Piquing the market's attention was the comment "The Board has a low tolerance for a slower return of inflation to target than currently expected" inserted into the concluding paragraph. This keeps the November meeting live for another rate hike, with a reasonable chance of next week's reading of core inflation for Q3 beating the RBA's estimate.

The NZD was weaker after the CPI report and the move has been sustained overnight. After the strong US retail sales report the NZD fell to as low as 0.5871, before recovering to trade just under 0.59. The combination of a lower NZ CPI and more hawkish RBA minutes saw NZ-Australian rate spreads narrow and driving a steady fall in the NZD/AUD cross, down nearly a cent from this time yesterday to 0.9265. The AUD has been the strongest of the majors over the past 24 hours, up 0.3% to 0.6360.

The GDT dairy auction price index rose 4.3%, the fourth successive strong auction in a row, seeing prices rebound by a chunky 17% over that time. All product prices rose, with both whole milk and skim milk powder up by over 4%. Futures pricing had forewarned the strong auction and milk payout futures recently traded at \$8, suggesting further upside to Fonterra's projections.

Higher US Treasury yields have done no harm to the US equity market, with the S&P500 recovering from early losses and currently flat for the session.

In the day ahead, new RBA Governor Bullock will be giving a "fireside chat" at a conference where we might learn about her biases. China activity data are expected to show sluggish GDP growth in Q2, with the annual increase falling to 4.5% y/y, and little upside momentum in the range of monthly indicators. The key release tonight will be the UK CPI for September, with annual headline and core annual inflation expected to nudge lower, the latter down to 6.0% y/y.

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Coming Up

		Perioc	Cons.	Prev.	NZT
AU	RBA's Bullock - Fireside chat				11:30
CH	GDP (y/y%)	Q3	4.5	6.3	15:00
CH	GDP (q/q%)	Q3	0.9	0.8	15:00
CH	Industrial production (y/y%)	Sep	4.4	4.5	15:00
CH	Retail sales (y/y%)	Sep	4.9	4.6	15:00
CH	Fixed assets invest. (YTD, y/y%)	Sep	3.2	3.2	15:00
UK	CPI (y/y%)	Sep	6.6	6.7	19:00
UK	CPI core (y/y%)	Sep	6.0	6.2	19:00
US	Building permits (k)	Sep	1453	1543	01:30
US	Housing starts (k)	Sep	1390	1283	01:30

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	0.5892	-0.6	0.5871	0.5909	CHF	0.9008	+0.1	S&P 500	4,373	-0.0	18.9	Oil (Brent)	89.50	-0.2			
AUD	0.6359	+0.3	0.6337	0.6380	SEK	10.926	+0.1	Dow	33,956	-0.1	12.5	Oil (WTI)	86.38	-0.3			
EUR	1.0570	+0.1	1.0533	1.0595	NOK	10.970	+0.4	Nasdaq	13,537	-0.2	26.8	Gold	1922.7	+0.2			
GBP	1.2179	-0.3	1.2133	1.2212	HKD	7.824	+0.1	Stoxx 50	4,152	+0.1	20.6	HRC steel	705.0	+1.0			
JPY	149.83	+0.2	148.84	149.83	CNY	7.316	+0.1	FTSE	7,675	+0.6	10.9	CRB	282.4	-0.6			
CAD	1.3652	+0.3			SGD	1.369	+0.1	DAX	15,252	+0.1	20.6	Wheat Chic.	599.5	-0.8			
NZD/AUD	0.9266	-0.9			IDR	15,716	-0.0	CAC 40	7,030	+0.1	16.4	Sugar	27.49	+1.6			
NZD/EUR	0.5574	-0.7			THB	36.35	+0.3	Nikkei	32,040	+1.2	18.0	Cotton	83.42	-1.9			
NZD/GBP	0.4838	-0.3			KRW	1,354	-0.0	Shanghai	3,083	+0.3	0.1	Coffee	157.1	+1.8			
NZD/JPY	88.28	-0.4			TWD	32.32	+0.1	ASX 200	7,056	+0.4	4.1	WM powder	3220	+2.5			
NZD/CAD	0.8044	-0.3			PHP	56.74	-0.1	NZX 50	11,214	+0.3	3.4	Australian Futures					
NZ TWI	70.12	-0.6										3 year bond	95.9	-0.14			
Interest Rates																	
	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	5.09	4.53	USD	4.85	0.14	15-Apr-25	5.60	-0.04		1 year	5.81	-0.07			
AUD	4.10	4.15	4.38	4.91	AUD	4.55	0.09	15-Apr-27	5.36	-0.02		2 year	5.63	-0.05			
NZD	5.50	5.71	5.63	5.25	NZD	5.43	0.03	15-May-28	5.34	0.00		5 year	5.24	-0.01			
EUR	4.00	3.98	3.82	3.43	GER	2.88	0.10	15-May-31	5.41	0.03		7 year	5.22	0.01			
GBP	5.25	5.42	5.15	4.38	GBP	4.51	0.03	14-Apr-33	5.43	0.03		10 year	5.25	0.04			
JPY	-0.02	-0.03	0.22	1.00	JPY	0.78	0.02	15-May-41	5.65	0.04		15 year	5.31	0.04			
CAD	5.00	5.59	5.35	4.53	CAD	4.07	0.03	15-May-51	5.63	0.04							

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

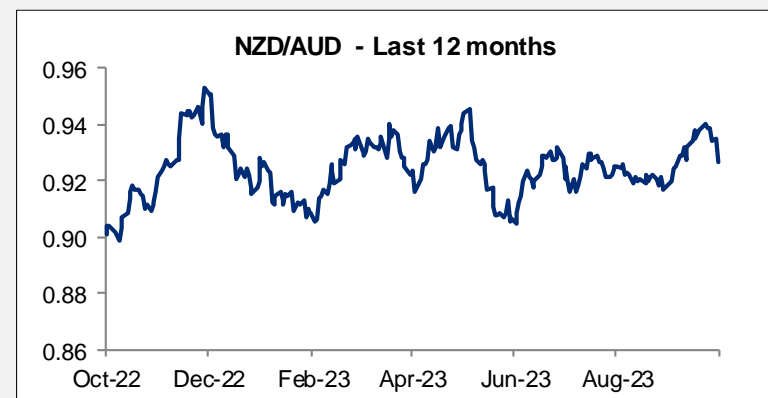
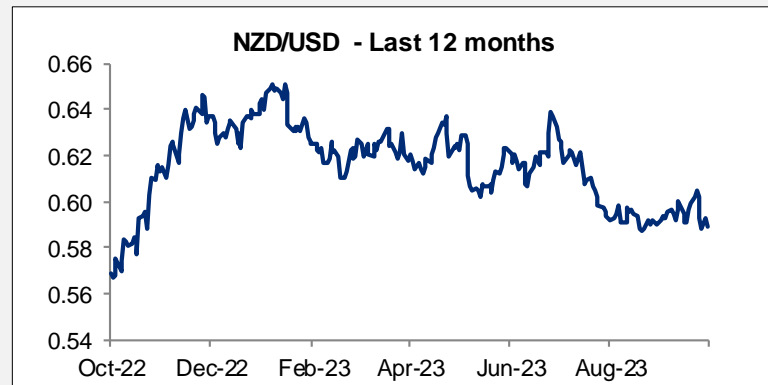
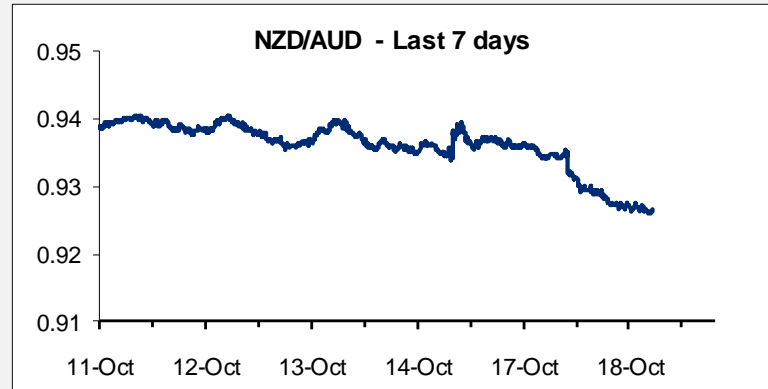
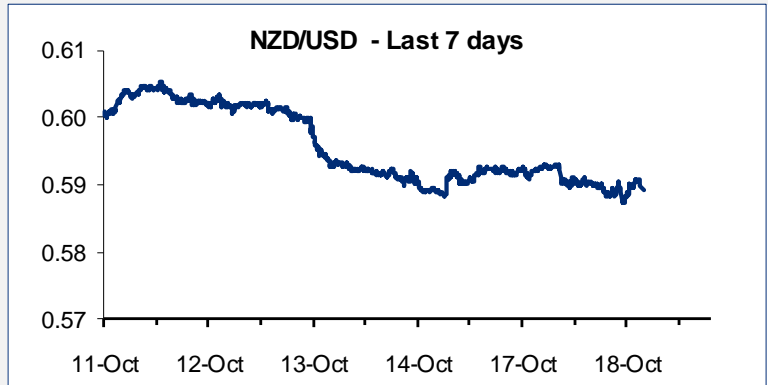
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:50

Source: Bloomberg

NZD exchange rates

17/10/2023	6:50 am	Prev. NY close
USD	0.5892	0.5927
GBP	0.4838	0.4851
AUD	0.9266	0.9346
EUR	0.5574	0.5613
JPY	88.28	88.61
CAD	0.8044	0.8067
CHF	0.5308	0.5334
DKK	4.1590	4.1868
FJD	1.3504	1.3613
HKD	4.6098	4.6332
INR	49.06	49.36
NOK	6.4633	6.4729
PKR	162.96	164.06
PHP	33.43	33.66
PGK	2.1742	2.1871
SEK	6.4377	6.4710
SGD	0.8064	0.8106
CNY	4.3104	4.3332
THB	21.44	21.52
TOP	1.3795	1.3894
VUV	72.50	73.03
WST	1.6242	1.6358
XPF	66.33	66.75
ZAR	11.0841	11.1256



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	0.21	0.48
3 Months	1.16	1.66
6 Months	2.05	3.23
9 Months	0.47	2.47
1 Year	-3.82	-0.82

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-10.41	-9.73
3 Months	-29.83	-28.49
6 Months	-56.71	-53.42
9 Months	-81.61	-75.83
1 Year	-106.24	-97.27

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