

Research Markets Today

19 February 2024

Events Round-Up

NZ: Manufacturing PMI, Jan: 47.3 vs. 43.1 prev.
 UK: Retail sales ex auto fuel (m/m%), Jan: 3.2 vs. 1.7 exp.
 US: Housing starts (k), Jan: 1331vs. 1458 exp.
 US: Building permits (k), Jan: 1470 vs. 1514 exp.
 US: PPI ex food, energy (m/m%), Jan: 0.5 vs. 0.1 exp.
 US: PPI ex food, energy (y/y%), Jan: 2.0 vs. 1.6 exp.
 US: U. of Mich. consumer sentiment, Feb: 79.6 vs. 80 exp.
 US: U. of Mich. 5-10 yr inflation exp, Feb: 2.9 vs. 2.8 exp.
 CH: PBOC 1y MLF rate, Feb: 2.5 vs. 2.5 exp.

Good Morning

US producer price inflation data surprised to the upside which led to reduced expectations for easing by the US Federal Reserve. US treasury yields reached the highest level for this year. The higher yield backdrop provided a headwind for equities with the S&P falling 0.5% during the session to end the week little changed. The Nikkei continued its stellar run. It is up 15% year to date and is just 1% below its all-time high reached in December 1989. Credit spreads were stable near the tightest levels in 2-years and the US dollar ended little changed on the major crosses.

US PPI, a leading indicator of consumer prices, rose 0.3% in January, above the median estimate for a 0.1% increase. Core producer prices increased 0.5%, which was well above consensus of 0.1%, and is attributed to services prices. The upside surprise, following a similar unexpected rise in consumer prices, will raise concerns about the broader inflation trajectory. However, the disinflationary process is not likely to be linear, and one month does not change the broader trend. The PPI release implies that core PCE for January will pick up from Q4-23 levels.

The University of Michigan's consumer sentiment index reached its highest level since mid-2021. Sentiment has been underpinned by rising equity markets and falling inflation. Within the report, inflation expectations over the next five-to-ten years were unchanged at 2.9%. This is above the pre-covid levels but should drift lower in coming months reflecting lower actual inflation. There was a large fall in US housing starts but this appears to be monthly variability around the modest uptrend.

US treasury yields spiked in response to the PPI data. 2-year yields made fresh highs for the year (4.72%) before drifting lower to end the session up 6bps at 4.64%. 10-year treasuries ended 5bps higher at 4.28%. The market is pricing ~90bps of easing this year, which is close to Fed policy maker's projection of 75bps. Just two weeks ago, market pricing implied around 150bps of cuts.

UK retail sales data for January outstripped even the most optimistic economist estimates. Core retail sales rebounded 3.2% on the month following a slump in December. The data helped to dispel some of the gloom around the economy which was confirmed to be in a technical recession in H2-2023. Other forward-looking indicators suggest the UK economy has started the year on a firmer footing.

The US dollar rallied following the PPI data but retraced to end little changed against major currencies. The CTFC futures positioning data revealed speculative accounts have flipped to net long dollar positions. This position shift is a function of the dollar's strong start to the year. NZD/USD outperformed within the G10, and gained close to 0.5% from the local close, though there wasn't any obvious catalyst for the move.

The NZ yield curve steepened in the local session on Friday. Front end swaps ended unchanged at 5.14% while 10-year yields gained 5bps to 4.67%. Government bonds outperformed swaps in the longer end as the market looks ahead to the likely syndication of the new nominal 2054 maturity this week. Australian 3 and 10-year bond futures are ~3bps higher in yield since the local close on Friday suggesting an upward bias to NZ yields on the open.

It is a quiet start to the week from a data perspective and the public holiday in the US will dampen market activity. The only release of note is the services PMI which slipped below 50 into contractionary territory in December. The manufacturing PMI, released Friday, showed the activity in the manufacturing sector improved in January, but continued to contract.

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Coming Up

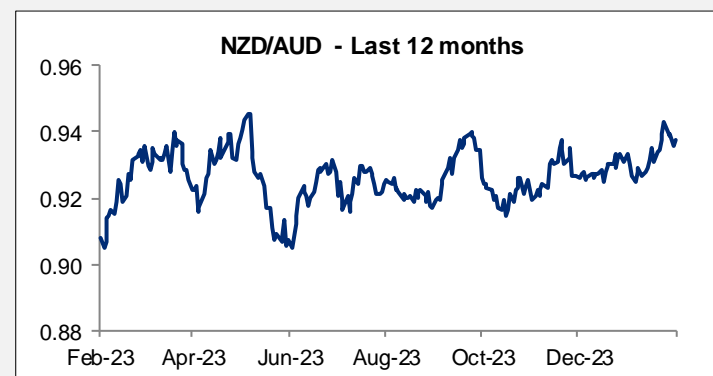
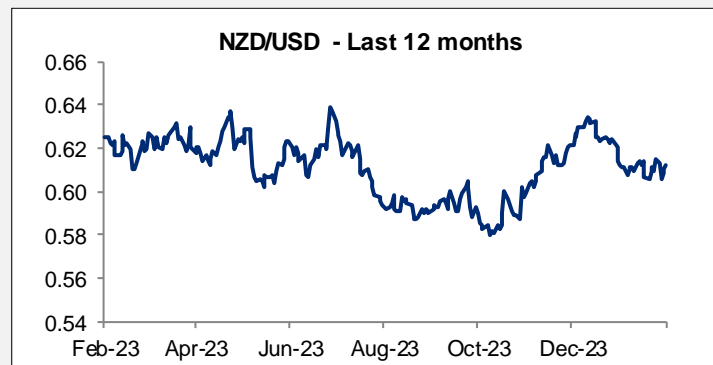
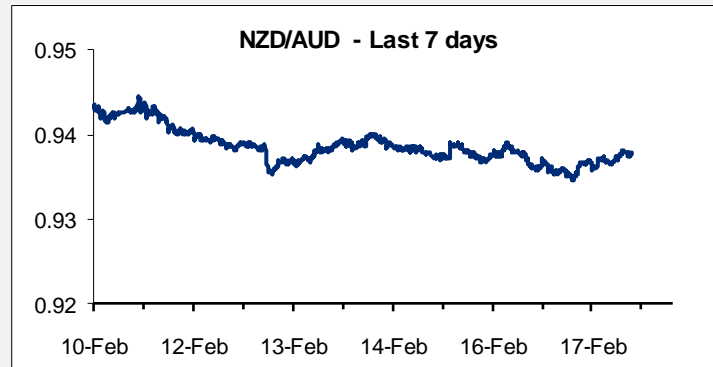
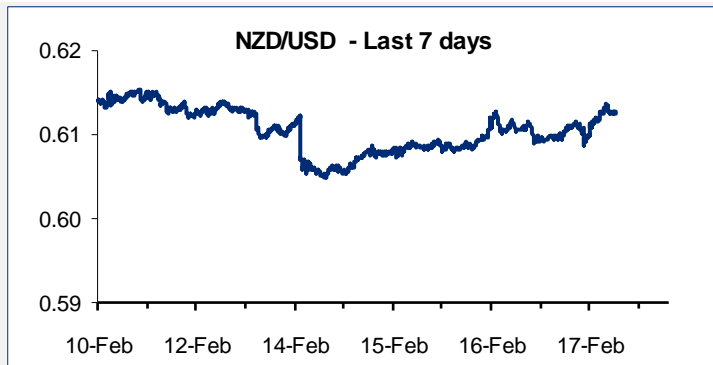
	Period	Cons.	Prev.	NZT
NZ	Performance Services Index	Jan	48.8	10:30

Source: Bloomberg, BNZ

Currencies								Equities				Commodities			
Indicative overnight ranges (*)					Other FX			Major Indices				Price (Near futures, except CRB)			
	Last	% Day	Low	High		Last	% Day		Last	% Day	% Year		Last	Net Day	
NZD	0.6124	+0.3	0.6086	0.6136	CHF	0.8806	+0.1	S&P 500	5,006	-0.5	22.4	Oil (Brent)	83.47	+0.9	
AUD	0.6532	+0.1	0.6496	0.6545	SEK	10.439	-0.1	Dow	38,628	-0.4	14.6	Oil (WTI)	79.19	+1.5	
EUR	1.0777	+0.0	1.0732	1.0788	NOK	10.507	-0.2	Nasdaq	15,776	-0.8	33.1	Gold	2011.5	+0.5	
GBP	1.2601	+0.0	1.2551	1.2624	HKD	7.822	+0.0	Stoxx 50	4,766	+0.5	11.5	HRC steel	929.0	+0.0	
JPY	150.21	+0.2	150.09	150.65	CNY	7.194	-0.0	FTSE	7,712	+1.5	-3.7	CRB	272.6	+0.5	
CAD	1.3485	+0.1			SGD	1.347	+0.1	DAX	17,117	+0.4	10.6	Wheat Chic.	559.0	-1.4	
NZD/AUD	0.9375	+0.2			IDR	15,624	+0.0	CAC 40	7,768	+0.3	5.7	Sugar	23.08	+1.1	
NZD/EUR	0.5682	+0.3			THB	36.00	-0.2	Nikkei	38,487	+0.9	39.9	Cotton	93.87	-0.8	
NZD/GBP	0.4860	+0.3			KRW	1,336	+0.1	Shanghai	2,866	+1.3	-12.4	Coffee	186.7	+0.8	
NZD/JPY	91.99	+0.5			TWD	31.36	-0.2	ASX 200	7,658	+0.7	4.2	WM powder	3390	+0.3	
NZD/CAD	0.8258	+0.5			PHP	55.96	-0.1	NZX 50	11,724	+0.7	-3.5	Australian Futures			
NZ TWI	71.88	+0.3						VIX Index	14.24	+1.6	-29.4	3 year bond	96.23	-0.05	
													10 year bond	95.78	-0.04
Interest Rates															
Rates		Swap Yields			Benchmark 10 Yr Bonds		NZ Government Bonds			NZ BKBM and Swap Yields					
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day		Last	Chg		Last	Chg		
USD	5.50	5.58	4.51	3.92	USD	4.28	0.05	15-May-26	4.92	0.00	BKBM 1-mth	5.63	-0.00		
AUD	4.35	4.34	4.08	4.48	AUD	4.19	0.06	15-Apr-27	4.76	0.00	BKBM 3-mth	5.71	-0.03		
NZD	5.50	5.71	5.15	4.67	NZD	4.85	0.05	15-May-28	4.68	0.01	1 year	5.65	-0.02		
EUR	4.00	3.92	3.19	2.75	GER	2.40	0.04	20-Apr-29	4.67	0.02	2 year	5.15	0.01		
GBP	5.25	5.33	4.60	3.89	GBP	4.11	0.05	15-May-30	4.70	0.03	3 year	4.85	0.01		
JPY	-0.01	-0.03	0.26	0.92	JPY	0.74	0.00	15-May-31	4.74	0.03	5 year	4.64	0.02		
CAD	5.00	5.35	4.67	3.93	CAD	3.59	0.04	15-May-32	4.78	0.04	7 year	4.62	0.03		
					NZ Inflation-Indexed Bonds		14-Apr-33	4.81	0.04	10 year	4.67	0.05	15 year	4.76	0.05
* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer					Sep-30	2.47	0.01	15-May-34	4.85	0.05					
Rates at NY close					Sep-35	2.78	0.01	15-May-37	5.00	0.05					
Source: Bloomberg					Sep-40	2.98	0.01	15-May-41	5.10	0.05					
								15-May-51	5.08	0.05					

NZD exchange rates

17/02/2024	NY close	Prev. NY close
USD	0.6124	0.6107
GBP	0.4860	0.4847
AUD	0.9375	0.9359
EUR	0.5682	0.5669
JPY	91.99	91.56
CAD	0.8258	0.8223
CHF	0.5393	0.5374
DKK	4.2365	4.2262
FJD	1.3756	1.3807
HKD	4.7902	4.7753
INR	50.84	50.71
NOK	6.4344	6.4274
PKR	171.12	170.64
PHP	34.27	34.22
PGK	2.2988	2.2916
SEK	6.3927	6.3844
SGD	0.8250	0.8218
CNY	4.4054	4.3950
THB	22.06	22.09
TOP	1.4305	1.4202
VUV	74.39	74.29
WST	1.6747	1.6658
XPF	68.03	67.86
ZAR	11.5644	11.5695



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.39	0.10
3 Months	-1.75	-0.37
6 Months	-6.33	-3.47
9 Months	-15.68	-8.72
1 Year	-21.34	-17.26

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-8.77	-7.73
3 Months	-28.17	-25.54
6 Months	-57.91	-51.90
9 Months	-88.00	-74.33
1 Year	-108.92	-97.00

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