

Research Markets Today

19 October 2023

Events Round-Up

CH: GDP (y/y%), Q3: 4.9 vs. 4.5 exp.
CH: GDP (q/q%), Q3: 1.4 vs. 0.9 exp.
CH: Industrial production (y/y%), Sep: 4.5 vs. 4.4 exp.
CH: Retail sales (y/y%), Sep: 5.5 vs. 4.9 exp.
CH: Fixed assets invest. (YTD, y/y%), Sep: 3.1 vs. 3.2 exp.
UK: CPI (y/y%), Sep: 6.7 vs. 6.6 exp.
UK: CPI core (y/y%), Sep: 6.1 vs. 6.0 exp.
US: Building permits (k), Sep: 1473 vs. 1453 exp.
US: Housing starts (k), Sep: 1358 vs. 1390 exp.

Good Morning

Global bonds markets remain under pressure with US treasuries making fresh multi-year highs ahead of a widely anticipated speech by Fed Chair Powell. The rise in yields contributed to a pullback in equities – the S&P was down 0.7% in early afternoon trade – and a higher US dollar. NZD/USD made fresh 2023 lows below 0.5860.

Brent crude futures prices increased more than 3% on concerns that the conflict between Israel and Hamas could spread more widely in the region. One of the catalysts for the jump in prices was the Iranian Foreign Minister calling for a ‘full and immediate boycott’ of Israel by Muslim countries. There was some retracement of the move, but oil prices remain more than 2% higher.

Geopolitical uncertainty contributed to further gains in gold prices which reached the highest level in four weeks amid demand for defensive assets. Higher US treasury yields, despite rising global uncertainty, has contributed to flows into alternative portfolio hedges like gold which has rebounded more than 8% off the October lows.

US housing starts rose 7.0% to 1,358K in September, marginally below the consensus estimate of 1,380K. The increase only reverses about half of the fall from August and leaves the level of housing starts 14% below the recent peak in May. Meanwhile building permits, a leading indicator of housing demand, fell 4% to an annual rate of 1473k units. The drop in permits indicates that tight financing conditions are constraining the US housing market and that the flattening in construction activity will continue into the fourth quarter.

UK inflation data was marginally higher than expected. Headline inflation held steady at 6.7% in September against consensus expectations for a dip to 6.6%. However, this was below the Bank of England’s projections of 6.9% in the August Monetary Policy Report. Core inflation was also 0.1% above median estimates at 6.0% though down from 6.2% in August. There is about a 25% chance of a 25bps hike priced for the November policy meeting.

The Chinese economy grew faster than expected in Q3. GDP expanded at a 4.9% annual rate and 1.3% from the previous quarter. The data seems to point to the economy bottoming out and that the incremental stimulus measures are working. However Chinese officials suggested caution noting the ‘external environment is becoming more complex’ and ‘domestic demand remains insufficient’. The Hang Seng China enterprises index gained initially following the GDP data before drifting lower.

Global government bond yields moved higher led initially by a large 15bp increase in 10-year UK Gilts. US 10-year treasury yields reached an intra-day peak of 4.93%, the highest level since 2007, before retracing lower after a decent US\$13 billion 20-year auction. This was a relief after treasury auctions last week saw weak demand and large tails. The rise in yields prompted the Bank of Japan to announce another unscheduled bond buying operation. However, the volumes aren’t large enough to change the trajectory of higher yields. 10-year JGB yields edged higher to trade back above 0.8%.

In currency markets, the US Dollar gained alongside the move higher in treasury yields. The dollar index increased close to 0.4% at the intraday highs before reversing course in line with the pullback in US rates. The Swiss franc continued to outperform within the G10 given its defensive properties. EUR/CHF fell close to 0.5% with key technical support coming in at 0.9410 which corresponds with the 2022 low.

NZD/USD couldn’t sustain the gains made yesterday following the better than expected Chinese economic data and made fresh 2023 lows below 0.5860 overnight in line with the stronger US dollar. NZD/AUD moved below 0.9250, extending the move from earlier in the week aligned with the compression in interest rate spreads.

NZ fixed interest markets moved higher in yield in the local session yesterday reflecting the direction if not the

magnitude of offshore moves. 10-year government bond yields increased 5bps to 5.47% outperforming on a cross market basis. 10-year spreads to the US have compressed towards 60bps which is the lower end of the trading range for the past few months. The front end was anchored by the CPI data earlier in the week contributing to a steeper curve ahead of the weekly supply. New Zealand Debt Management is tendering NZ\$500 million of nominal NZGBs today split across 15 May 2026 (\$200m), 15 May 2034 (\$200m) and 15 May 2041 (\$100m).

Statistics New Zealand announced it is expanding the monthly price indices that currently include food prices and rents. The new monthly data will cover 44% of household spending and will be released for the first time in November.

Labour market data is released in Australia today. The median expectation is for a 20k increase in employment and the unemployment rate to hold steady at 3.7%. The RBA forecast the unemployment rate averaging 3.9% in

Q4. Fed Chair Powell speaks at the Economic Club of New York with a Q&A session early tomorrow morning (NZT). Recent commentary by Fed officials has noted the tightening in financial conditions from long term yields reducing the requirements for further increases in the policy rate. Powell may provide insight into officials' thinking ahead of the early November FOMC.

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Coming Up

	Period	Cons.	Prev.	NZT
AU Employment Change (k)	Sep 20	64.9	13:30	
AU Unemployment Rate (%)	Sep	3.7	3.7	13:30
US Initial Jobless Claims (k)	Oct 14	210	209	01:30
US Philadelphia Fed Business Outlook	Oct	-6.9	-13.5	01:30
US Existing Home Sales (m/m%)	Sep	-3.71	-0.7	03:00
US Fed's Powell Speaks at Economic Club of New York				05:00

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	0.5872	-0.4	0.5851	0.5920	CHF	0.8976	-0.3	S&P 500	4,332	-0.9	16.4	Oil (Brent)	91.73	+2.0
AUD	0.6349	-0.3	0.6328	0.6393	SEK	11.005	+0.9	Dow	33,787	-0.6	10.7	Oil (WTI)	88.67	+2.3
EUR	1.0551	-0.2	1.0523	1.0594	NOK	11.036	+0.8	Nasdaq	13,374	-1.2	24.1	Gold	1955.3	+1.7
GBP	1.2169	-0.1	1.2138	1.2211	HKD	7.828	+0.0	Stoxx 50	4,106	-1.1	18.5	HRC steel	702.0	-0.4
JPY	149.76	-0.0	149.60	149.89	CNY	7.316	-0.0	FTSE	7,588	-1.1	9.4	CRB	283.1	+0.3
CAD	1.3690	+0.3			SGD	1.372	+0.3	DAX	15,095	-1.0	18.2	Wheat Chic.	609.3	+1.7
NZD/AUD	0.9249	-0.2			IDR	15,730	+0.1	CAC 40	6,966	-0.9	14.8	Sugar	27.48	-0.3
NZD/EUR	0.5565	-0.2			THB	36.34	+0.0	Nikkei	32,042	+0.0	17.6	Cotton	84.29	+1.3
NZD/GBP	0.4825	-0.3			KRW	1,350	-0.3	Shanghai	3,059	-0.8	0.5	Coffee	158.1	+0.8
NZD/JPY	87.94	-0.4			TWD	32.31	-0.0	ASX 200	7,078	+0.3	4.1	WM powder	3305	+1.1
NZD/CAD	0.8039	-0.1			PHP	56.70	-0.1	NZX 50	11,221	+0.1	2.8	Australian Futures		
NZ TWI	69.92	-0.4										3 year bond	95.81	-0.09
												10 year bond	95.29	-0.07
Interest Rates								NZ Government Bonds				NZ Swap Yields		
	Rates		Swap Yields		Benchmark 10 Yr Bonds			Last			Last			
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day								
USD	5.50	5.66	5.09	4.55	USD	4.88	0.04	15-Apr-25	5.61	0.01	1 year	5.81	-0.00	
AUD	4.10	4.20	4.42	5.00	AUD	4.65	0.10	15-Apr-27	5.37	0.01	2 year	5.63	0.00	
NZD	5.50	5.66	5.63	5.28	NZD	5.47	0.04	15-May-28	5.36	0.02	5 year	5.26	0.02	
EUR	4.00	3.97	3.83	3.47	GER	2.92	0.04	15-May-31	5.44	0.03	7 year	5.24	0.03	
GBP	5.25	5.40	5.24	4.52	GBP	4.66	0.15	14-Apr-33	5.47	0.04	10 year	5.28	0.03	
JPY	-0.01	-0.03	0.23	1.01	JPY	0.81	0.03	15-May-41	5.68	0.03	15 year	5.34	0.03	
CAD	5.00	5.59	5.36	4.56	CAD	4.10	0.02	15-May-51	5.65	0.01				

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

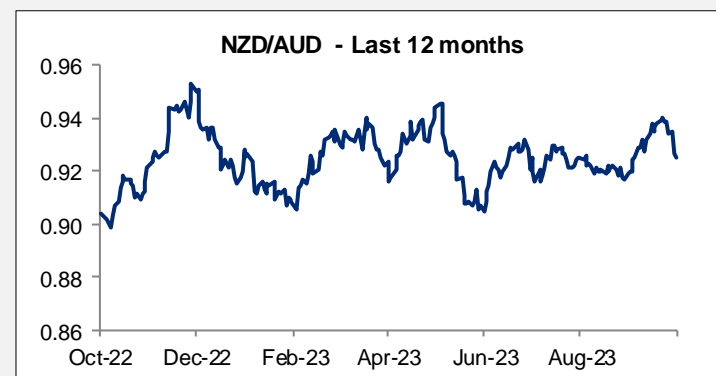
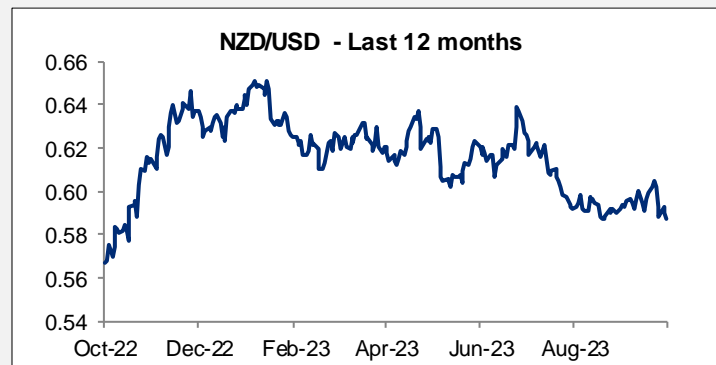
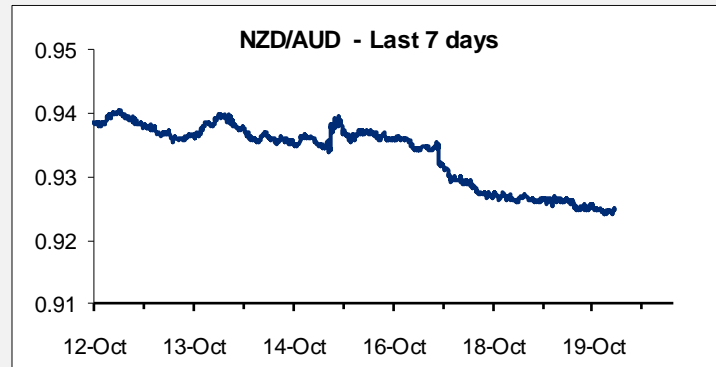
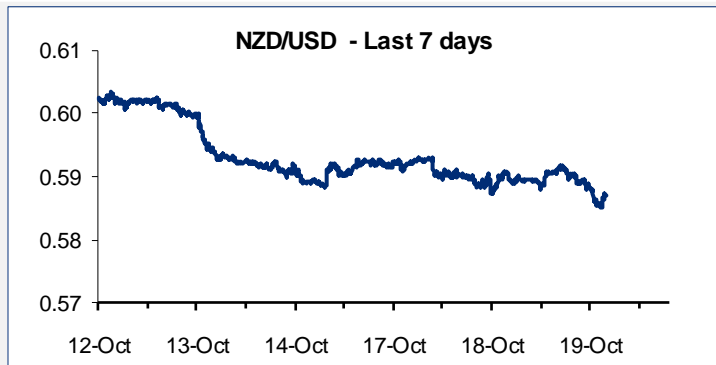
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:50

Source: Bloomberg

NZD exchange rates

18/10/2023	6:50 am	Prev. NY close
USD	0.5872	0.5897
GBP	0.4825	0.4840
AUD	0.9249	0.9265
EUR	0.5565	0.5575
JPY	87.94	88.34
CAD	0.8039	0.8048
CHF	0.5271	0.5308
DKK	4.1526	4.1594
FJD	1.3462	1.3572
HKD	4.5965	4.6139
INR	48.89	49.10
NOK	6.4806	6.4590
PKR	164.43	163.10
PHP	33.30	33.46
PGK	2.1668	2.1720
SEK	6.4620	6.4339
SGD	0.8056	0.8069
CNY	4.2955	4.3141
THB	21.31	21.46
TOP	1.3713	1.3862
VUV	72.17	72.47
WST	1.6192	1.6245
XPF	66.16	66.42
ZAR	11.1283	11.0876



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	0.13	0.43
3 Months	1.11	1.61
6 Months	2.08	3.28
9 Months	0.04	2.04
1 Year	-4.78	-1.78

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-10.30	-9.57
3 Months	-30.84	-29.58
6 Months	-56.53	-53.25
9 Months	-80.96	-75.50
1 Year	-104.55	-95.72

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