

Research Markets Today

20 October 2023

Events Round-Up

- AU: Employment change (k), Sep: 7 vs. 20 exp.
- AU: Unemployment rate (%), Sep: 3.6 vs. 3.7 exp.
- US: Initial jobless claims (k), wk to 14 Oct: 198 vs. 210 exp.
- US: Philly Fed business outlook, Oct: -9.0 vs. -7.0 exp.
- US: Existing home sales (m/m%), Sep: -2.0 vs. -3.7 exp.

Good Morning

Against a backdrop of weaker risk appetite, commodity currencies have underperformed over the past 24 hours, with the NZD trading at a fresh low for the year before recovering. Trading has been whippy over the past hour or two in response to a speech by Fed Chair Powell, with a fickle market responding to both dovish and hawkish soundbites. The US 10-year rate traded at a fresh 16-year high of 4.99% but the USD has been broadly weaker overnight.

Market conditions were whippy this morning as Fed Chair Powell gave a speech to the Economic Club of New York and the headlines rolled down the screen. His prepared remarks were consistent with the message delivered at the September FOMC meeting, as he commented “given the uncertainties and risks, and how far we have come, the committee is proceeding carefully”. On further tightening he said “we are attentive to recent data showing the resilience of economic growth and demand for labour...additional evidence of persistently above-trend growth, or that tightness in the labour market is no longer easing, could put further progress on inflation at risk and could warrant further tightening of monetary policy”.

His speech was also consistent with recent remarks from his colleagues as he noted the recent significant tightening of financial conditions and “persistent changes” in these “can have implications for monetary policy”.

The consistent message from what we’ve been hearing saw a relief rally in bonds and a weaker USD, however, in the Q&A his comments came across as more hawkish. He said the evidence is that policy is not too tight right now...either the neutral rate has risen, or rates have not been high enough for long enough. He added that the risk is still high inflation and business leaders had told him the economy remains strong. This saw rates and the USD climb back higher. But now that move had faded somewhat.

After trading down to 4.89% and as high as 4.99% - a fresh 16-year high - the 10-year Treasury yield currently sits at 4.96%, not much different from the NZ close. The 2-year rate is down 4bps on the day, making the curve steeper. The market sees little chance of the Fed hiking in two weeks, and a slightly reduced chance of another rate hike over the subsequent couple of meetings, with that probability now pegged at about a 40% chance.

After President Biden’s trip to Israel, risk appetite seemed to fall, with US diplomatic efforts not providing the market enough confidence that the war will be contained. In latest developments, the Egypt-Gaza border will open today, allowing aid into Gaza, however, Israel is continuing to prepare for significant ground operations in Gaza against Hamas. In Israel’s North, Hezbollah have been firing rockets from Lebanon.

Weaker risk sentiment yesterday drove a stronger USD and the NZD fell to a fresh low of 0.5816 last night. However, much of that reversed course and, despite a blip higher after a hawkish soundbite from Powell, the USD is broadly weaker, seeing the NZD recover back to 0.5850. The AUD saw some additional weakness after a softer than expected employment print but has recovered by more than the NZD. There was evident support for the AUD just below 0.63 and it has recovered to 0.6340, with NZD/AUD grinding down to 0.9230.

European currencies have outperformed, with EUR recovering to 1.06 and NZD/EUR down to 0.5525. After trading below 0.48 last night, NZD/GBP has recovered a little and NZD/JPY has recovered to 87.7 after grinding lower yesterday.

Ahead of Powell speaking, US economic data were mixed, but not market moving. Initial jobless claims fell to 198k last week to their lowest level since January, continuing to come in lower than expectations, providing no evidence of any uptick in people losing their jobs. However, continuing claims rose to 1.73m, the highest level since July, suggesting those losing jobs may be having trouble finding new ones. Existing home sales fell 2% in September to a 13-year low and have fallen for 18 of the past 20 months, with the now familiar story of those locked into low mortgage rates of 5% or less unwilling to move as that would entail a refinancing of the mortgage to 7-8%. This shortage of house sales is contributing to inflation via a

lack of supply, and demand for new housing for new purchasers.

The domestic rates market felt the full force of higher global rates but with some anchoring of NZ monetary policy expectations meaning that this was reflected in steeper curves, with long-term rates pushing up to levels not seen in more than a decade. The 2-year swap rate closed 4bps higher at 5.67% and the 10-year rate rose 12bps to 5.40%. The 10-year NZGB rose 11bps to 5.57%. NZDM postponed the bond tender to today, after encountering technical difficulties with the YieldBroker tendering system.

In the day ahead, after NZ trade figures, Japan CPI figures are expected to edge lower from well above-target rates. Tonight sees the release of retail sales data for the UK and

Canada. The US is quiet apart from a barrage of Fed speakers.

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Coming Up

		Perioc	Cons.	Prev.	NZT
NZ	Trade balance (ann \$b)	Sep	-15.5	10:45	
UK	GfK consumer confidence	Oct	-20	-21	12:01
JN	CPI (y/y%)	Sep	3.0	3.2	12:30
JN	CPI ex fr. food, energy (y/y%)	Sep	4.1	4.3	12:30
UK	Retail sales ex auto, fuel (m/m%)	Sep	-0.4	0.6	19:00
CA	Retail sales ex auto (m/m%)	Aug	-0.1	1.0	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	0.5857	+0.0	0.5816	0.5867	CHF	0.8922	-0.8		S&P 500	4,306	-0.2	16.5	Oil (Brent)	92.22	+0.8	
AUD	0.6344	+0.1	0.6297	0.6357	SEK	10.945	-0.7		Dow	33,641	-0.0	10.6	Oil (WTI)	89.14	+0.9	
EUR	1.0601	+0.6	1.0528	1.0616	NOK	10.994	-0.5		Nasdaq	13,280	-0.2	24.3	Gold	1970.7	+0.8	
GBP	1.2170	+0.3	1.2090	1.2192	HKD	7.824	-0.1		Stoxx 50	4,090	-0.4	17.8	HRC steel	704.0	+0.1	
JPY	149.77	-0.1	149.68	149.96	CNY	7.311	-0.1		FTSE	7,500	-1.2	8.3	CRB	285.8	+1.0	
CAD	1.3701	-0.1			SGD	1.371	-0.2		DAX	15,045	-0.3	18.1	Wheat Chic.	617.8	+1.7	
NZD/AUD	0.9232	-0.1			IDR	15,815	+0.5		CAC 40	6,921	-0.6	14.6	Sugar	27.29	-0.7	
NZD/EUR	0.5525	-0.6			THB	36.39	+0.0		Nikkei	31,431	-1.9	16.4	Cotton	84.30	+0.1	
NZD/GBP	0.4813	-0.2			KRW	1,358	+0.6		Shanghai	3,005	-1.7	-1.0	Coffee	164.0	+3.6	
NZD/JPY	87.72	-0.1			TWD	32.39	+0.3		ASX 200	6,982	-1.4	3.7	WM powder	3335	+0.9	
NZD/CAD	0.8025	-0.1			PHP	56.86	+0.3		NZX 50	11,136	-0.8	2.8	Australian Futures			
NZ TWI	69.72	-0.1											3 year bond	95.74	-0.07	
													10 year bond	95.21	-0.06	
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	Net Day		Last	Net Day		Last	Net Day
USD	5.50	5.68	5.05	4.63	USD	4.96	0.05	15-Apr-25	5.61	0.00		1 year	5.82	0.01		
AUD	4.10	4.22	4.43	5.05	AUD	4.78	0.13	15-Apr-27	5.43	0.06		2 year	5.67	0.04		
NZD	5.50	5.66	5.67	5.40	NZD	5.57	0.11	15-May-28	5.44	0.08		5 year	5.36	0.10		
EUR	4.00	3.99	3.82	3.48	GER	2.93	0.01	15-May-31	5.54	0.11		7 year	5.35	0.11		
GBP	5.25	5.41	5.24	4.58	GBP	4.67	0.02	14-Apr-33	5.57	0.11		10 year	5.40	0.12		
JPY	-0.01	-0.03	0.25	1.05	JPY	0.84	0.03	15-May-41	5.77	0.09		15 year	5.46	0.13		
CAD	5.00	5.59	5.32	4.62	CAD	4.17	0.06	15-May-51	5.71	0.07						

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

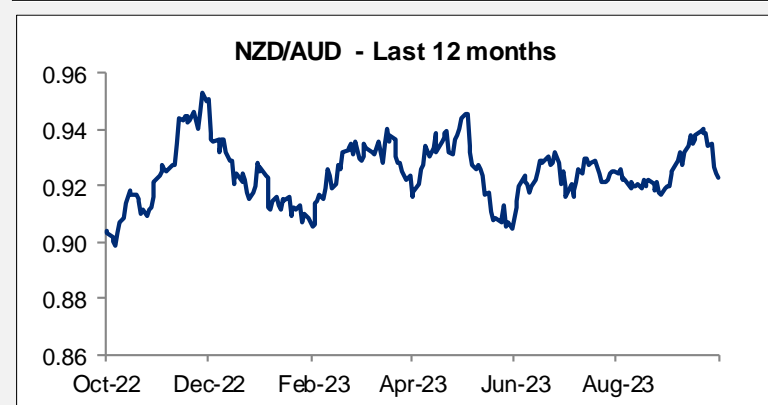
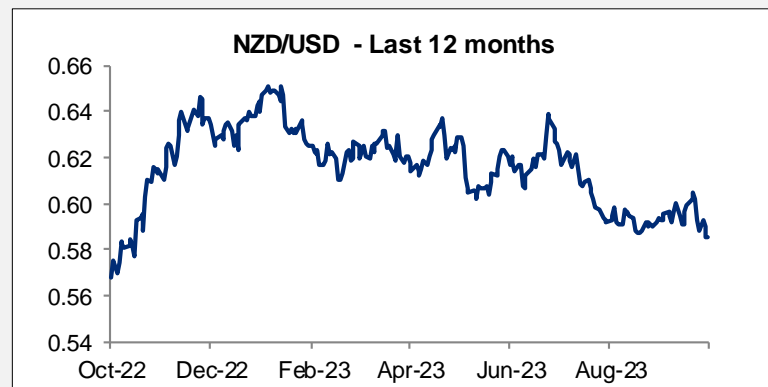
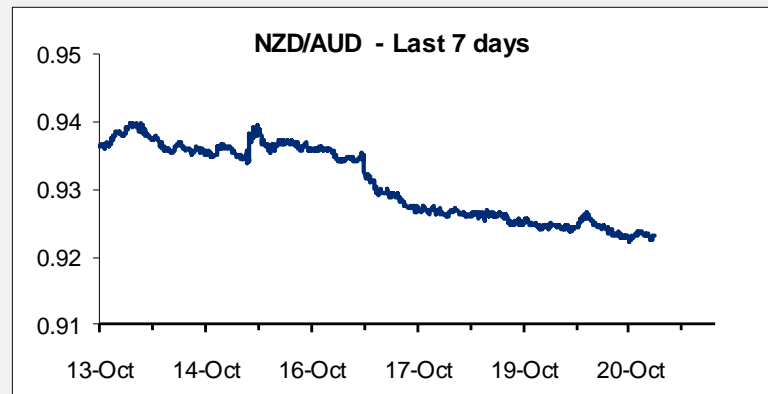
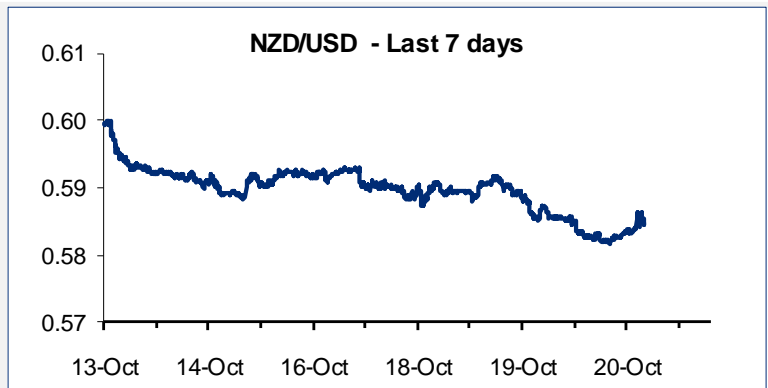
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 07:02

Source: Bloomberg

NZD exchange rates

19/10/2023	7:02 am	Prev. NY close
USD	0.5857	0.5856
GBP	0.4813	0.4824
AUD	0.9232	0.9242
EUR	0.5525	0.5558
JPY	87.72	87.80
CAD	0.8025	0.8032
CHF	0.5226	0.5265
DKK	4.1241	4.1469
FJD	1.3390	1.3450
HKD	4.5827	4.5851
INR	48.75	48.76
NOK	6.4393	6.4685
PKR	163.36	163.98
PHP	33.30	33.21
PGK	2.1741	2.1617
SEK	6.4107	6.4559
SGD	0.8031	0.8043
CNY	4.2817	4.2845
THB	21.36	21.25
TOP	1.3965	1.3766
VUV	72.49	71.91
WST	1.6131	1.6111
XPF	65.90	66.20
ZAR	11.1009	11.1219



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	0.07	0.42
3 Months	0.89	1.40
6 Months	1.05	2.16
9 Months	-1.78	0.21
1 Year	-7.60	-4.61

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-10.35	-9.34
3 Months	-29.97	-28.70
6 Months	-55.75	-52.61
9 Months	-80.20	-74.86
1 Year	-104.13	-95.16

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