

# Research Markets Today

21 March 2024

## Events Round-Up

NZ: Westpac consumer confidence, Q1: 93.2 vs. 88.9 prev.

NZ: Current account bal (% GDP), Q4: -6.9 vs. -7.0 exp.

UK: CPI (y/y%), Feb: 3.4 vs. 3.5 exp.

UK: CPI core (y/y%), Feb: 4.5 vs. 4.6 exp.

EA: Consumer confidence, Mar: -14.9 vs. -15.0 exp.

US: Fed Funds rate (upper bound), Mar: 5.5 vs. 5.5 exp.

## Good Morning

Market reaction to the Fed's latest policy update has been well contained so far, with some relief that the Fed still projects three rate cuts this year, albeit sees less scope for lower rates further out. The US Treasuries curve is steeper on the day, driven by lower rates at the short end. The NZD hit a fresh low for the year of 0.6025 last night but is closer to 0.6070 as we go to print.

This morning the US FOMC published its last policy update where the Fed Funds rate target range was maintained at 5.25-5.5%. The only tweak in the press release was the description of the jobs market where gains have "remained strong". There was no other change, with the committee repeating "it does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent".

There was much interest in the new forecasts and, in the event, the dotplot continued to show three expected rate cuts this year while for 2025 the number of cuts expected was reduced from four to three. The long-term "dot", which is seen as an estimate of the neutral rate, was lifted by 0.1% to 2.6%.

On the economy, the core PCE inflation forecast for 2024 was raised two-tenths to 2.6% for this year, but unchanged at 2.2% and 2.0% for the following two years. GDP projections were revised higher, with growth running at 2.0-2.1% over the three-year period (above the long-run estimate of 1.8%), but the unemployment rate projections were little changed, down just a tenth this year to 4.0%, before 4.1% next year and down a tenth to 4.0% in 2026. The message from these revisions is that the US economy can seemingly run stronger than previously thought without generating the same inflationary pressure.

In his press conference, Chair Powell said that inflation has eased substantially but was still too high. He repeated previous messaging that rates had peaked and it would be appropriate to begin easing "at some point this year". On quantitative tightening, Powell said that no decision was made but it would be appropriate to slow the pace of asset runoff "fairly soon".

Chair Powell is still speaking as we go to print but market reaction to the Fed's update has been well contained so far. The US Treasuries curve is steeper, with the 2-year rate down 5bps on the day, with the 10-year rate steady at 4.29%. US equities are up modestly. The USD has weakened a little since the Fed's release, but not significantly so. Within a bout of broad USD strength last night, the NZD hit a fresh low for the year of 0.6025 but it has since recovered to 0.6070 as the USD weakened. NZD cross movements are small.

UK CPI inflation data were weaker, with the headline rate falling to 3.4% y/y, the lowest rate in 2½ years, and the core measure falling to 4.5% y/y, both one-tenth lower than expected. Services inflation was slightly higher than expected at 6.1%. The data come ahead of the BoE's decision tonight, with the central bank in a wait and see mode for better CPI and wages data before willing to signal any possible easing in policy. The first full rate cut isn't priced until August. The softer CPI data supported UK Gilts as the market priced in slightly more easing this year, with the 2-year rate down 5bps against a smaller 2bps fall in Germany's 2-year rate, while GBP was well-contained.

In a speech last night, ECB President Lagarde repeated her message from the last policy meeting that when it comes to the data "we will know a bit more by April, and a lot more by June", widely understood to give a nod to a likely June rate cut, but she added some nuance with "our decisions will have to remain data dependent and meeting-by-meeting...this implies that, even after the first rate cut, we cannot pre-commit to a particular rate path". With the Fed in focus, there was little market reaction to the comment.

In the domestic rates market, yields were lower across the NZGB and swap curves. This was a reaction to lower Australian rates since the RBA's policy update post the previous NZ close, reflecting the on-hold decision and removal of the central bank's tightening bias. NZGBs were down 6bps across the curve. The 2-year swap rate fell

7bps to 4.87%, with the market anticipating a soft GDP print today, and the 10-year swap rate fell 5bps to 4.41%.

There was no reaction to NZ consumer confidence data improving to a two-year high, with the level remaining well below average and consistent with weak consumer spending. NZ's current account balance continued to show improvement, as one normally expects in an economic recession, with the annual deficit narrowing to 6.9% of GDP, the smallest in nearly two years.

Finally, good news for carbon emitters and consumers, after the NZ carbon unit under the ETS scheme plunged 22% yesterday to close at \$51. This happened after the latest quarterly auction partially cleared at the floor price of \$64, with 84% of the units on offer selling, raising \$190m for the government. The price drop post auction signalled poor sentiment in the market, with political uncertainty overhanging the ETS scheme and belief that the supply of units in the market is too high. While the big drop in the secondary market was on light volumes, if prices are sustained at a low level, then that reduces the inflationary pressure on products which are affected by the price of carbon. That said, the low price will incentivise the government to act decisively to "fix" the broken market.

The calendar is full for the day ahead. NZ Q4 GDP data should highlight the lack of growth of the economy over the quarter and year, with growth close to zero on both accounts, and a near 3% drop in per capita terms, which puts it on a par with the depths of the GFC. This should be

news to nobody. Australia's employment report could show the unemployment rate tick back down from a two-year high. Tonight sees the release of PMI data across the Europe and US. The Bank of England's policy update shouldn't surprise in its likely on-hold decision and without any clear guidance on the timing of any possible rate cut.

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## Coming Up

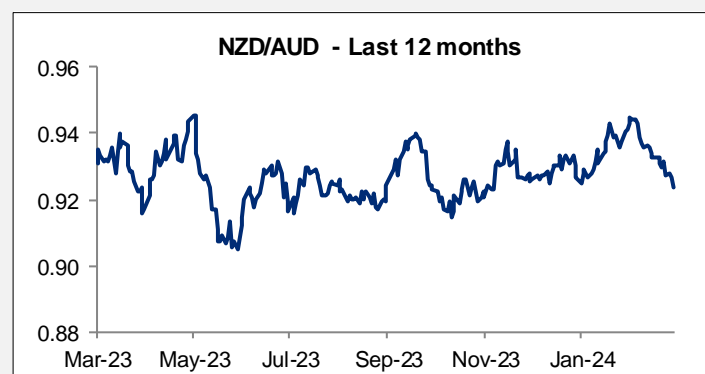
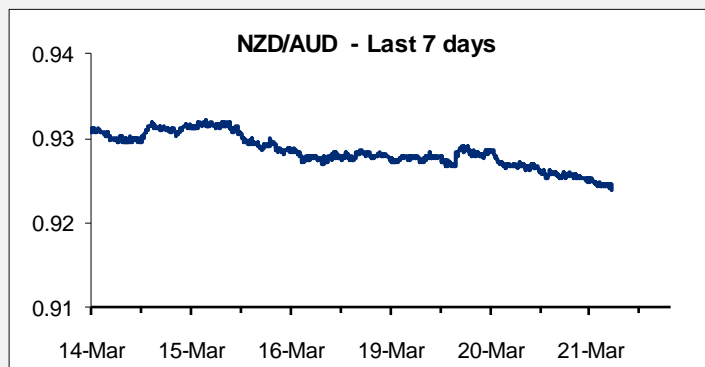
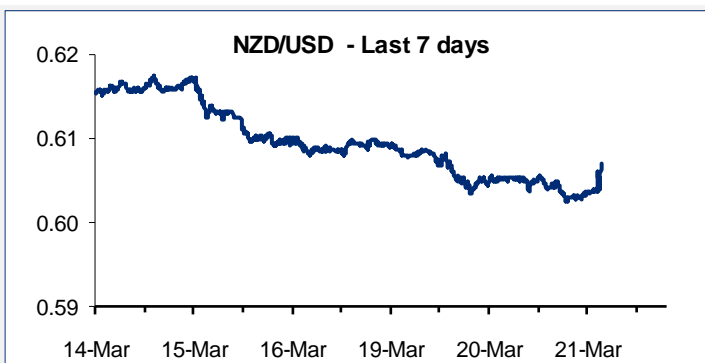
		Period	Cons.	Prev.	NZT
NZ	GDP (q/q%)	Q4	0.1	-0.3	10:45
AU	Employment change (k)	Feb	40	0.5	13:30
AU	Unemployment rate (%)	Feb	4.0	4.1	13:30
GE	Manufacturing PMI	Mar	43.0	42.5	21:30
GE	Services PMI	Mar	48.8	48.3	21:30
EC	Manufacturing PMI	Mar	47.0	46.5	22:00
EC	Services PMI	Mar	50.5	50.2	22:00
UK	Manufacturing PMI	Mar	47.8	47.5	22:30
UK	Services PMI	Mar	53.8	53.8	22:30
UK	Bank of England Bank Rate (%)	Mar	5.25	5.25	01:00
US	Philly Fed business outlook	Mar	-2.8	5.2	01:30
US	Initial jobless claims (k)	16-Mar	213	209	01:30
US	Manufacturing PMI	Mar P	51.8	52.2	02:45
US	Services PMI	Mar P	52	52.3	02:45
US	Existing home sales (m/m%)	Feb	-1.5	3.1	03:00

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	Net Day			
NZD	0.6069	+0.3	0.6025	0.6070	CHF	0.8881	-0.0	S&P 500	5,188	+0.2	31.3	Oil (Brent)	86.07	-1.4
AUD	0.6568	+0.6	0.6512	0.6570	SEK	10.417	-0.2	Dow	39,377	+0.7	22.1	Oil (WTI)	81.68	-2.0
EUR	1.0904	+0.4	1.0837	1.0907	NOK	10.597	-0.5	Nasdaq	16,310	+0.9	39.7	Gold	2169.2	+0.5
GBP	1.2770	+0.4	1.2685	1.2771	HKD	7.824	+0.0	Stoxx 50	5,000	-0.2	21.4	HRC steel	794.0	-0.1
JPY	150.84	-0.0	150.78	151.82	CNY	7.198	-0.0	FTSE	7,737	-0.0	4.5	CRB	286.9	-0.1
CAD	1.3508	-0.4			SGD	1.340	-0.1	DAX	18,015	+0.2	20.6	Wheat Chic.	561.5	-1.0
NZD/AUD	0.9240	-0.3			IDR	15,723	+0.0	CAC 40	8,161	-0.5	16.4	Sugar	21.77	+0.6
NZD/EUR	0.5566	-0.1			THB	36.03	-0.1	Nikkei	40,004	+0.7	48.5	Cotton	92.18	-1.2
NZD/GBP	0.4753	-0.1			KRW	1,339	-0.0	Shanghai	3,080	+0.6	-5.4	Coffee	182.4	-0.4
NZD/JPY	91.54	+0.3			TWD	31.88	+0.3	ASX 200	7,696	-0.1	10.6	WM powder	3090	-1.3
NZD/CAD	0.8198	-0.1			PHP	56.14	+0.4	NZX 50	11,833	+0.0	2.6	<b>Australian Futures</b>		
NZ TWI	71.06	+0.1						VIX Index	13.60	-1.6	-43.7	3 year bond	96.39	0.02
<b>Interest Rates</b>														
	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	5.59	4.53	3.92	USD	4.28	-0.01	15-May-26	4.60	-0.06	BKBM 1-mth	5.59	0.00	
AUD	4.35	4.35	3.99	4.30	AUD	4.05	-0.03	15-Apr-27	4.42	-0.06	BKBM 3-mth	5.64	0.00	
NZD	5.50	5.64	4.87	4.41	NZD	4.59	-0.06	15-May-28	4.34	-0.06	1 year	5.38	-0.04	
EUR	4.00	3.94	3.24	2.71	GER	2.43	-0.02	20-Apr-29	4.35	-0.06	2 year	4.87	-0.07	
GBP	5.25	5.32	4.50	3.75	GBP	4.02	-0.04	15-May-30	4.38	-0.06	3 year	4.57	-0.07	
JPY	0.00	-0.03	0.27	0.85	JPY	0.74	0.00	15-May-31	4.43	-0.06	5 year	4.35	-0.06	
CAD	5.00	5.30	4.50	3.82	CAD	3.50	-0.03	15-May-32	4.49	-0.06	7 year	4.34	-0.06	
					NZ Inflation-Indexed Bonds		14-Apr-33		4.54	-0.06	10 year	4.41	-0.05	
* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer					Sep-30	2.32	-0.04	15-May-34	4.59	-0.06	15 year	4.52	-0.05	
Rates are as of: NZT 07:47					Sep-35	2.64	-0.04	15-May-37	4.75	-0.06				
Source: Bloomberg					Sep-40	2.82	-0.04	15-May-41	4.86	-0.06				
								15-May-51	4.85	-0.06				
								15-May-54	4.87	-0.06				

**NZD exchange rates**

21/03/2024 7:47 am		Prev. NY close
USD	0.6069	0.6052
GBP	0.4753	0.4757
AUD	0.9240	0.9265
EUR	0.5566	0.5570
JPY	91.54	91.30
CAD	0.8198	0.8211
CHF	0.5390	0.5375
DKK	4.1508	4.1537
FJD	1.3784	1.3742
HKD	4.7483	4.7346
INR	50.48	50.26
NOK	6.4314	6.4444
PKR	168.93	168.61
PHP	34.07	33.84
PGK	2.2782	2.2709
SEK	6.3221	6.3151
SGD	0.8133	0.8122
CNY	4.3685	4.3571
THB	21.95	21.84
TOP	1.4036	1.4290
VUV	73.29	73.19
WST	1.6470	1.6453
XPF	66.41	66.33
ZAR	11.3487	11.4410



**NZD/USD Forward Points**

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.10	0.38
3 Months	-0.28	0.35
6 Months	-2.48	-0.95
9 Months	-5.31	-2.49
1 Year	-7.50	-4.50

**NZD/AUD Forward points**

	BNZ buys NZD	BNZ Sells NZD
1 Month	-8.38	-7.32
3 Months	-25.09	-23.49
6 Months	-49.60	-45.63
9 Months	-71.38	-64.33
1 Year	-89.12	-78.33

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