Research

Markets Today

22 March 2024

Events Round-Up

NZ: GDP (q/q%), Q4: -0.1 vs. 0.1 exp.

AU: Employment change (k), Feb: 116.5 vs. 40 exp.

AU: Unemployment rate (%), Feb: 3.7 vs. 4.0 exp.

GE: Manufacturing PMI, Mar: 41.6 vs. 43.0 exp.

GE: Services PMI, Mar: 49.8 vs. 48.8 exp.

EC: Manufacturing PMI, Mar: 45.7 vs. 47.0 exp.

EC: Services PMI, Mar: 51.1 vs. 50.5 exp.

UK: Manufacturing PMI, Mar: 49.9 vs. 47.8 exp.

UK: Services PMI, Mar: 53.4 vs. 53.8 exp.

UK: Bank of England Bank Rate (%), Mar: 5.25 vs. 5.25 exp.

US: Philly Fed business outlook, Mar: 3.2 vs. -2.5 exp.

US: Initial jobless claims (k), wk to 16-Mar: 210 vs. 213 exp.

US: Manufacturing PMI, Mar: 52.5 vs. 51.8 exp.

US: Services PMI, Mar: 51.7 vs. 52.0 exp.

US: Existing home sales (m/m%), Feb: 9.5 vs. -1.5 exp.

Good Morning

Last night a surprise rate cut by the Swiss National Bank got the market's attention but spillover to the key markets has been limited. European yields have pushed lower against little change in US Treasury yields. USD weakness after the Fed's policy update yesterday has completely reversed. After a brief look above 0.61, the NZD is trading down to 0.6045. NZD/AUD has fallen below 0.92.

We have previously written about emerging market central banks leading the global policy easing cycle (last year). Overnight, the Swiss National Bank became the first major developed central bank to ease policy, surprising the market with a 25bps cut in its policy rate to 1.5%. The context though is CPI inflation has already fallen to 1.2% y/y and core inflation to 1.1%, limiting the read-through to other central banks and limiting spillover effects for other markets.

CHF is obviously weaker, losing 1.2% against the USD and this dynamic seems to have been a modest drag on other European currencies, with European yields lower. German 2 and 10-year rates are down 5bps and 3bps respectively, against flat-to-higher US Treasury yields, with the 2-year rate up 3bps and the 10-year rate little changed at 4.28%. Slightly higher US short rates represent a mild reversal to the rate fall seen after yesterday's Fed policy update. Overall, the Fed is likely to be content with the well-contained market reaction to its now-familiar message.

Broad USD weakness after the Fed's update has completely reversed, with the DXY index up 0.6% on the day. EUR is down about that amount to 1.0860 and GBP has underperformed, falling 1% to 1.2655 following the Bank of England's slight move in a dovish direction.

The BoE kept policy on hold at 5.25% but the hawks on the committee abandoned their long-held call to hike rates further, moving in line with the consensus and resulting in an 8-1 majority for no change (one member continuing her call for easier policy). The last couple of paragraphs from the policy Statement were unchanged, with policy needing to remain restrictive for sufficiently long and the Bank remaining data dependent. In new language, the minutes recognised the fact that policy "could remain restrictive, even if Bank Rate were to be reduced". Governor Bailey said that "we do need to see further progress" in the more persistent bits of inflation, particularly the services element.

On the economic calendar, PMI data showed weaker manufacturing activity for Europe but stronger services activity. The latter is more important and at 51.1, above the 50 mark for a second consecutive month, the indicator suggests improved growth momentum from near-recessionary conditions, supported by lower energy prices, and lower inflation driving improved real incomes. The UK services PMI slipped a little to 53.4, but it has been above 50 for five consecutive months now. The US PMI showed an insignificant fall in the composite to 52.2, but the figures aren't given much weight by the market, with the ISM surveys and their wider coverage preferred.

The US existing home sales market saw some life after a protracted period of hibernation, surging 9.5% m/m. The Philly Fed business outlook survey showed a smaller reduction in the business outlook indicator than expected to 3.2 from 5.2 and the underlying details looked robust, with higher new orders, shipments, and unfilled orders, while pricing indicators suitably fell. Initial job claims continued to remain low, with a 2k dip last week to 210k, the data still showing no clear signs of increased layoffs that other indicators show.

Yesterday, Australia's February employment report was stronger than expected, suggesting that weakness over the previous two months reflected changing seasonality or volatility in the data than fundamental forces. The unemployment rate fell a chunky 0.4 percentage points to 3.7%, making the previous two-year high look like a head-fake. The data drove Australian rates and the AUD higher. While the 10bps or so lift in 3 and 10 year rates has been sustained, the USD reversal has seen the AUD lose its modest gain, falling from a peak of 0.6635 last night to 0.6570.

NZ Q4 GDP contracted by 0.1% q/q, slightly weaker than consensus, and marking the fourth quarterly contraction out of the past five quarters. The 0.3% contraction over the past year, against a 3% surge in the population, made 2023 simply an awful year and poor relative to peers, but the story of the figures should be little surprise to anyone, unless they've been hiding under a rock.

The initial market reaction was a significant fall in rates, some 13bps for the 2-year swap rate, but that looked like a significant over-reaction to the small downside miss – perhaps exacerbated by positioning – with rates soon smartly higher and the retracement further encouraged by the stronger than expected Australian employment report. The NZD reaction was well contained and within half an hour the figures were well forgotten.

By the market close, the 2-year swap rate was down just 4bps to 4.84% while the 10-year rate was down 1bp to 4.40%. The OIS market saw an increased chance of the RBNZ easing this year, with August still being the preferred starting date for the easing cycle, with an extra 5bps of easing priced into the curve by that date and almost three full cuts priced by November. The latter isn't out of line with pricing for the Fed, ECB, BoE and BoC.

The NZGB curve steepened, as seen in the US market post the Fed announcement, with short rates down 3bps, the 10-year rate flat, and the ultra-long bonds up 1bp. The bond tender had light cover ratios, particularly for the 7-year bonds, and both lines offered ended the day 3bps higher from the tender yields.

After a small dip post the GDP release, the NZD made a run for 0.61 and traded a little over that mark last night before the USD reversal began, driving the currency back down towards 0.6040 as we go to print. The weak NZ GDP, strong Australian employment combo has driven a lower NZD/AUD cross and it has slipped below 0.92. A weaker cross rate has been in our projections for some time and ultimately we see a test below 0.90. Other NZD crosses are mixed, with a small lift against JPY, flat against EUR and up to 0.4775 against GBP.

Finally, global equity markets are liking the prospect of the easier monetary policy, with fresh record highs set across Europe, the US and Japan. The Euro Stoxx 600 index closed up 0.9% while the S&P500 is currently up 0.6%. Yesterday, Japan's Nikkei 225 index closed up 2%, the small rate hike earlier this week – against the global theme – doing no harm, given Governor Ueda's insistence that policy will remain accommodative for some time.

In the day ahead NZ trade data and Japan CPI are released during the local trading session, with UK and Canadian retail sales and Germany's IFO survey released tonight.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Trade balance (ann $b)	Feb		-12.5	10:45
JN	CPI (y/y%)	Feb	2.9	2.2	12:30
JN	CPI x fresh food, energy (y/y%)	Feb	3.3	3.5	12:30
UK	GfK consumer confidence	Mar	-19	-21	13:01
UK	Retail sales ex auto fuel (m/m%)	Feb	-0.1	3.2	20:00
GE	IFO expectations	Mar	84.7	84.1	22:00
CA	Retail sales ex auto (m/m%)	Jan	-0.5	0.6	01:30

Source: Bloomberg, BNZ

Currencies

Indicative overnight ranges (*)	Last	% Day	Low	High
NZD	0.6041	-0.7	0.6039	0.6107
AUD	0.6569	-0.3	0.6561	0.6635
EUR	1.0858	-0.6	1.0856	1.0943
GBP	1.2656	-1.0	1.2654	1.2803
JPY	151.72	+0.3	150.85	151.75
CAD	1.3536	+0.3		
NZD/AUD	0.9196	-0.4		
NZD/EUR	0.5564	-0.1		
NZD/GBP	0.4773	+0.4		
NZD/JPY	91.65	-0.3		
NZD/CAD	0.8177	-0.3		
NZ TWI	70.80	-0.5		

Other FX	Last	% Day
CHF	0.8982	+1.3
SEK	10.470	+0.8
NOK	10.671	+0.9
HKD	7.821	-0.0
CNY	7.200	+0.0
SGD	1.344	+0.3
IDR	15,669	-0.3
THB	36.27	+0.8
KRW	1,322	-1.3
TWD	31.87	-0.0
PHP	56.04	-0.2

Equities

Major Indices	Last	% Day	% Year
S&P 500	5,254	+0.5	31.2
Dow	39,820	+0.8	22.3
Nasdaq	16,430	+0.4	38.5
Stoxx 50	5,052	+1.0	20.8
FTSE	7,883	+1.9	4.6
DAX	18,179	+0.9	19.6
CAC 40	8,180	+0.2	15.0
Nikkei	40,816	+2.0	48.6
Shanghai	3,077	-0.1	-5.8
ASX 200	7,782	+1.1	10.9
NZX 50	11,916	+0.7	2.8
VIX Index	12.95	-0.7	-39.4

Commodities

Price (Near futures, except CRB)	Last	Net Day
Oil (Brent)	85.59	-0.4
Oil (WTI)	80.90	-0.5
Gold	2182.7	+1.0
HRC steel	794.0	-0.1
CRB	285.5	-0.5
Wheat Chic.	560.8	+0.1
Sugar	22.06	+1.3
Cotton	92.18	-0.0
Coffee	185.7	+2.1
WM powder	3025	-2.1
Australian Futures		
3 year bond	96.34	-0.05
10 year bond	95.88	-0.07

Interest Rates

	Rates		Swap Yields	
	Cash	3Mth	2 Yr	10 Yr
USD	5.50	5.59	4.53	3.91
AUD	4.35	4.35	4.01	4.35
NZD	5.50	5.64	4.84	4.40
EUR	4.00	3.92	3.19	2.69
GBP	5.25	5.32	4.41	3.73
JPY	0.07	-0.03	0.31	0.88
CAD	5.00	5.30	4.50	3.84

* These are indicative ranges from 5pm NZT;
please confirm rates with your BNZ dealer
Rates are as of: NZT 07:02

Benchmark 10 Yr Bonds	Last	Net Day
USD	4.27	0.00
AUD	4.09	0.04
NZD	4.59	-0.00
GER	2.41	-0.03
GBP	4.00	-0.02
JPY	0.74	0.00
CAD	3.51	0.02

NZ Inflation-Indexed Bonds		
Sep-30	2.26	-0.06
Sep-35	2.58	-0.06
Sep-40	2.77	-0.06

NZ Government Bonds	Last	Chg
15-May-26	4.57	-0.03
15-Apr-27	4.39	-0.03
15-May-28	4.32	-0.03
20-Apr-29	4.32	-0.02
15-May-30	4.36	-0.02
15-May-31	4.418	-0.01
15-May-32	4.48	-0.01
14-Apr-33	4.53	-0.01
15-May-34	4.59	-0.00
15-May-37	4.75	0.00
15-May-41	4.86	0.00
15-May-51	4.85	0.01
15-May-54	4.89	0.01

NZ BKBM and Swap Yields	Last	Chg
BKBM 1-mth	5.59	0.00
BKBM 3-mth	5.64	0.00
1 year	5.35	-0.03
2 year	4.84	-0.04
3 year	4.54	-0.03
5 year	4.33	-0.01
7 year	4.32	-0.01
10 year	4.40	-0.01
15 year	4.52	-0.00

Source: Bloomberg

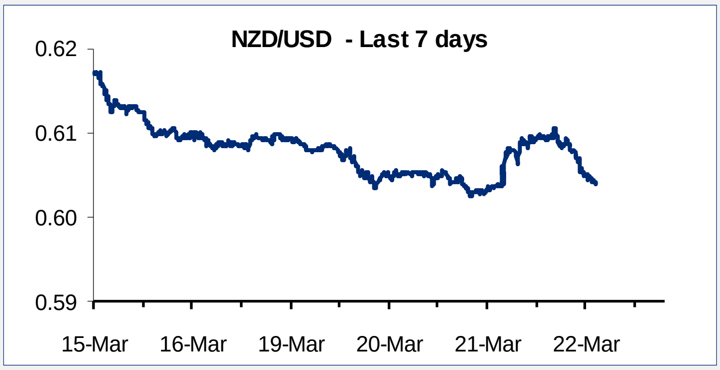
NZD exchange rates		
22/03/2024	**7:02 am**	**Prev. NY close**
USD	0.6041	0.6081
GBP	0.4773	0.4756
AUD	0.9196	0.9233
EUR	0.5564	0.5568
JPY	91.65	91.98
CAD	0.8177	0.8204
CHF	0.5426	0.5393
DKK	4.1492	4.1524
FJD	1.3671	1.3786
HKD	4.7248	4.7570
INR	50.23	50.57
NOK	6.4462	6.4327
PKR	168.21	169.42
PHP	33.85	34.14
PGK	2.2779	2.2775
SEK	6.3248	6.3156
SGD	0.8119	0.8147
CNY	4.3492	4.3770
THB	21.78	22.00
TOP	1.4144	1.4205
VUV	73.05	73.57
WST	1.6421	1.6519
XPF	66.14	66.43
ZAR	11.3874	11.3735

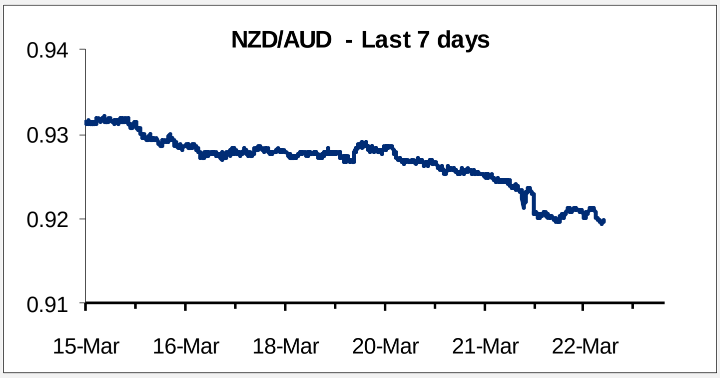
NZD/USD Forward Points

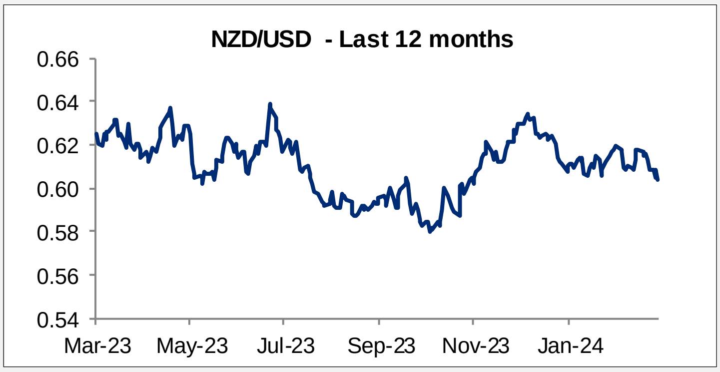
	BNZ buys NZD	BNZ sells NZD
1 Month	-0.04	0.29
3 Months	-0.25	0.39
6 Months	-2.20	-0.94
9 Months	-3.92	-1.91
1 Year	-6.50	-3.50

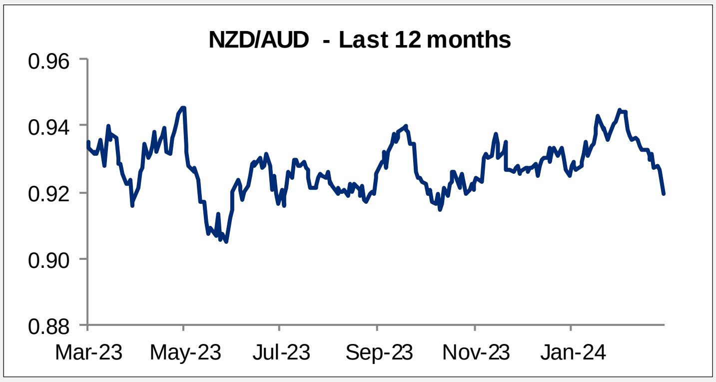
NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-8.53	-7.66
3 Months	-24.02	-22.61
6 Months	-47.18	-43.85
9 Months	-65.28	-60.10
1 Year	-80.64	-72.53









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