

Research Markets Today

24 October 2023

Events Round-Up

NZ: Trade balance (ann \$b), Sep: -15.3 vs. -15.5 prev.
 JN: CPI (y/y%), Sep: 3.0 vs. 3.0 exp.
 JN: CPI ex fr. food, energy (y/y%), Sep: 4.2 vs. 4.1 exp.
 UK: Retail sales ex auto, fuel (m/m%), Sep: -1.0 vs. -0.4 exp.
 CA: Retail sales ex auto (m/m%), Aug: 0.1 vs. -0.1 exp.
 EA: Consumer confidence, Oct: -17.9 vs. -18.2 exp.

Good Morning

The bond market has been wild, with the US 10-year rate trading an 18bps range overnight on little news, consistent with a fickle market, with a sharp fall to 4.83% after piercing up through the 5% mark for the first time since 2007. The sharp drop in yield supported a turnaround in US equities and pushed the USD lower. The NZD traded at a fresh year-to-date low just over 0.58 before recovering up through 0.5850.

Ahead of NZ's long weekend, price action on Friday night was consistent with a "risk-off" tone – with lower US equities, capping off a weekly fall of 2.4%; the VIX index closing at a 7-month high just under 22; a modest fall in the US 10-year rate to 4.91% but capping off the largest weekly rise this year of 30bps; and the NZD closing at 0.5830, not much higher than its prior year-to-date low traded on Thursday night.

In the weekend, the Nikkei reported that the BoJ will be pondering the question of whether to tweak the settings of its yield curve control policy at its October 31 meeting, with some officials said to be cautious about the idea as they continue to monitor wage trends. CPI data released Friday showed slightly lower annual inflation of 3.0%, as expected, and a tick down in the CPI ex fresh food and energy to 4.2% y/y, slightly stronger than expected, both the headline and core rates still running well above the 2% target.

The market reaction to the Nikkei report was another push higher in Japan's 10-year rate, to a fresh 10-year high of 0.86%, while the yen was largely unperturbed. USD/JPY briefly traded above 150 in early Sydney illiquid trading conditions, before settling just below that figure.

In price action overnight, the US 10-year Treasury yield broke up through the 5% mark for the first time since 2007, reaching 5.02% before a sharp reversal ensued, trading down to as low as 4.83% and currently 4.84%, down 8bps from the weekly close. Whether coincidental or not, hedge fund manager Bill Ackman tweeted that he had covered his short bet on US Treasuries and suggested that the economy was slowing faster than recent data suggests. Technicians will be looking at the sharp rejection of the 5% level in a positive light.

The yield curve has flattened with the 2-year rate showing a similar profile, but with smaller moves and currently flat from last week's close at 5.08%. Global rates have largely followed the profile of the US market, with Germany's 10-year rate falling 10bps after peaking at 2.97% and the UK rate falling 14bps after peaking at 4.74%.

The US equity market closely followed the move in Treasuries, with S&P futures sharply weaker as the 10-year rate pierced the 5% mark and a sharp recovery as yields collapsed. The S&P500 index fell over 0.8% soon after the open and now shows a modest 0.4% gain for the session.

In currency markets, the USD is broadly weaker from where we left it at Friday's NZ close, the DXY USD index tracking the US 10-year rate lower. EUR and GBP have shown the largest gains, up to 1.0670 and 1.2250 respectively. The NZD fell to a fresh year-to-date low of 0.5808 overnight, before the reversal in the USD saw the NZD recover up through 0.5850, trading at its highs for the session as we go to print. For the AUD, the lows seen earlier this month held and, after dipping below 0.63, the currency is near 0.6350. NZD/AUD has traded a tight range and sits at 0.9225.

NZD/GBP and NZD/EUR have pushed lower, heading below 0.48 and 0.55 respectively. Against a backdrop of an 18bps swing in the US 10-year rate, JPY has been remarkably well contained, with USD/JPY pushing down to 149.70.

In developments on the Israel-Hamas war, Israel continues to hold off on its planned ground assault on Gaza, against a backdrop of further diplomatic efforts by the G5 to prevent the conflict from spreading. Bloomberg reports insiders suggest growing calls inside Israel for a rethink of the planned ground invasion, due to the uncertainty about the fate of over 200 hostages being held in Gaza, fear of Hezbollah in Lebanon invading Israel from the north, and

the risk of heavy Israeli military casualties. Meanwhile, Israel continues with its aerial bombardment of Gaza military targets and with targeted strikes at Hezbollah forces in Lebanon.

The oil market continues to trade as if the conflict won't spread to involve large oil producers like Iran. Brent crude is trading at USD90 per barrel, down from the USD93 handle of late last week.

On Friday, NZ rates were down about 3-4bps across most of the swaps and NZGB curves, with NZDM's delayed tender going well, meeting strong demand and yields at premiums to prevailing mids. This capped off a good week for the NZ market against the backdrop of higher global yields, supported by the softer than expected CPI print earlier in the week. NZ-Australian 2 and 10-year rate spreads were down in the order of 20bps for the week, with the RBA's hawkish meeting minutes an additional support to the NZ market's outperformance for the week.

Since Friday's NZ close, the US 10-year rate is 10bps lower, while the Australian 10-year bond future is down just 3bps in yield terms after a volatile session overnight, which will set the tone for the NZ open.

The economic calendar has been light, with only second-tier releases. In the day ahead, UK labour market data on

employment and the unemployment rate are released, ahead of a number of PMI indicators across Europe the UK and the US, where the market expects only small changes from the previous month. RBA Governor Bullock is giving a speech tonight on Australian monetary policy.

jason.k.wong@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
UK	Unemployment rate (%)	Aug	4.3	4.3	19:00
GE	GfK consumer confidence	Nov	-27	-26.5	19:00
GE	Manufacturing PMI	Oct	40.1	39.6	20:30
GE	Services PMI	Oct	50.0	50.3	20:30
AU	RBA's Bullock gives speech				21:00
EC	Manufacturing PMI	Oct	43.7	43.4	21:00
EC	Services PMI	Oct	48.6	48.7	21:00
UK	Manufacturing PMI	Oct	44.7	44.3	21:30
UK	Services PMI	Oct	49.3	49.3	21:30
US	Manufacturing PMI	Oct	49.4	49.8	02:45
US	Services PMI	Oct	49.9	50.1	02:45

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	0.5856	+0.5	0.5808	0.5858	CHF	0.8907	-0.1	S&P 500	4,244	+0.5	13.1	Oil (Brent)	90.07	-2.3
AUD	0.6348	+0.5	0.6289	0.6349	SEK	10.959	-0.2	Dow	33,136	+0.0	6.6	Oil (WTI)	85.82	-2.6
EUR	1.0672	+0.7	1.0572	1.0673	NOK	11.064	-0.0	Nasdaq	13,118	+1.0	20.8	Gold	1976.3	-0.2
GBP	1.2251	+0.7	1.2143	1.2253	HKD	7.824	+0.0	Stoxx 50	4,042	+0.4	16.3	HRC steel	701.0	-0.6
JPY	149.67	-0.1	149.65	149.99	CNY	7.315	-0.0	FTSE	7,375	-0.4	5.8	CRB	286.0	-0.5
CAD	1.3679	-0.3			SGD	1.367	-0.4	DAX	14,801	+0.0	16.3	Wheat Chic.	616.8	+0.5
NZD/AUD	0.9225	-0.1			IDR	15,934	+0.4	CAC 40	6,850	+0.5	13.5	Sugar	27.48	+2.5
NZD/EUR	0.5487	-0.3			THB	36.33	-0.4	Nikkei	31,000	-0.8	14.9	Cotton	83.90	+1.8
NZD/GBP	0.4780	-0.3			KRW	1,354	+0.1	Shanghai	2,939	-1.5	-1.3	Coffee	165.9	+0.6
NZD/JPY	87.65	+0.3			TWD	32.37	+0.0	ASX 200	6,844	-0.8	1.0	WM powder	3295	-1.2
NZD/CAD	0.8010	+0.2			PHP	56.83	-0.0	NZX 50	10,994	-1.3	2.0	Australian Futures		
NZ TWI	69.64	-0.3										3 year bond	95.76	-0.01
												10 year bond	95.28	0.03
Interest Rates							NZ Government Bonds			NZ Swap Yields				
	Rates		Swap Yields		Benchmark 10 Yr Bonds			Last		Last	Last			
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day								
USD	5.50	5.66	4.94	4.50	USD	4.84	-0.08	15-Apr-25	5.60	-0.00	1 year	5.80	-0.02	
AUD	4.10	4.21	4.40	5.00	AUD	4.78	0.04	15-Apr-27	5.38	-0.05	2 year	5.64	-0.03	
NZD	5.50	5.67	5.64	5.37	NZD	5.54	-0.04	15-May-28	5.39	-0.04	5 year	5.33	-0.03	
EUR	4.00	3.97	3.76	3.44	GER	2.87	-0.02	15-May-31	5.50	-0.04	7 year	5.32	-0.03	
GBP	5.25	5.40	5.10	4.47	GBP	4.60	-0.05	14-Apr-33	5.54	-0.04	10 year	5.37	-0.04	
JPY	-0.01	-0.03	0.25	1.07	JPY	0.88	0.04	15-May-41	5.74	-0.03	15 year	5.43	-0.03	
CAD	5.00	5.59	5.17	4.50	CAD	4.02	-0.05	15-May-51	5.68	-0.03				

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

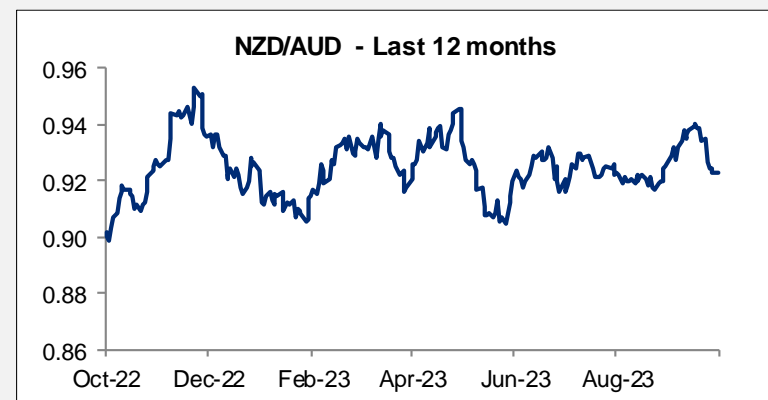
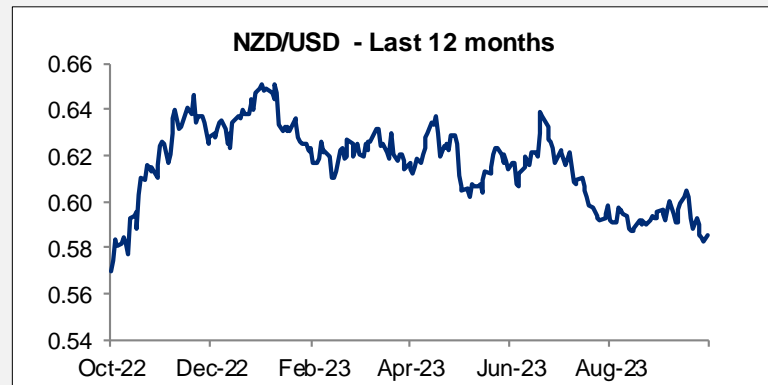
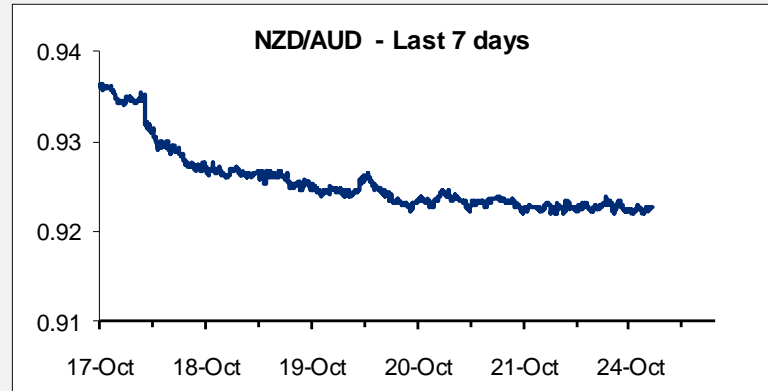
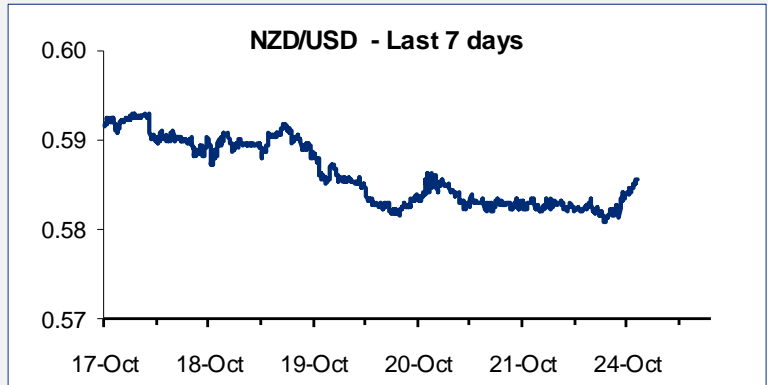
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:54

Source: Bloomberg

NZD exchange rates

23/10/2023 6:55 am	Prev. NY close
USD	0.5856 / 0.5828
GBP	0.4780 / 0.4791
AUD	0.9225 / 0.9230
EUR	0.5487 / 0.5501
JPY	87.65 / 87.34
CAD	0.8010 / 0.7993
CHF	0.5216 / 0.5199
DKK	4.0953 / 4.1048
FJD	1.3394 / 1.3401
HKD	4.5820 / 4.5598
INR	48.72 / 48.44
NOK	6.4789 / 6.4498
PKR	163.46 / 162.55
PHP	33.28 / 33.13
PGK	2.1657 / 2.1625
SEK	6.4174 / 6.3974
SGD	0.8003 / 0.7999
CNY	4.2802 / 4.2632
THB	21.38 / 21.25
TOP	1.3705 / 1.3681
VUV	72.51 / 71.92
WST	1.6239 / 1.6101
XPF	65.75 / 65.53
ZAR	11.0912 / 11.0793



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	0.05	0.46
3 Months	0.85	1.39
6 Months	1.08	2.13
9 Months	-1.82	0.15
1 Year	-7.79	-4.79

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-10.71	-9.84
3 Months	-29.16	-27.87
6 Months	-55.21	-52.23
9 Months	-78.74	-73.61
1 Year	-101.27	-93.16

Contact Details

BNZ Research

Stephen Toplis

Head of Research
+64 4 474 6905

Craig Ebert

Senior Economist
+64 4 474 6799

Doug Steel

Senior Economist
+64 4 474 6923

Jason Wong

Senior Markets Strategist
+64 4 924 7652

Stuart Ritson

Senior Interest Rate Strategist
+64 9 9248601

Mike Jones

BNZ Chief Economist
+64 9-956 0795

Main Offices

Wellington

Level 2, BNZ Place
1 Whitmore Street
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

Auckland

80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

Christchurch

111 Cashel Street
Christchurch 8011
New Zealand
Toll Free: 0800 854 854

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