

Research Markets Today

25 January 2024

Events Round-Up

NZ: CPI (q/q%), Q4: 0.5 vs. 0.5 exp.

NZ: CPI (y/y%), Q4: 4.7 vs. 4.7 exp.

GE: Manufacturing PMI, Jan: 45.4 vs. 43.7 exp.

GE: Services PMI, Jan: 47.6 vs. 49.3 exp.

EA: Manufacturing PMI, Jan: 46.6 vs. 44.7 exp.

EA: Services PMI, Jan: 48.4 vs. 49.0 exp.

UK: Manufacturing PMI, Jan: 47.3 vs. 46.7 exp.

UK: Services PMI, Jan: 53.8 vs. 53.2 exp.

CA: Bank of Canada policy rate (%), Jan: 5.0 vs. 5.0 exp.

US: Manufacturing PMI, Jan: 50.3 vs 47.6 exp.

US: Services PMI, Jan: 52.3 vs. 51.5 exp.

Good Morning

Risk appetite improved overnight, supported by a surprise easing of policy in China, the message from global PMIs, and the Bank of Canada removing its tightening bias. Equity markets are stronger, bond markets are well contained, the USD is broadly weaker and Brent crude has pushed up above USD80 per barrel. The NZD is up 1% from this time yesterday to 0.6130.

In a surprise move in terms of size and timing, the PBoC said it will cut the reserve requirement ratio for all banks by 50bps to 7.0% in two weeks, the first cut since September, and contributing to the easier monetary policy stance that has been in play for some time. The move will expand long-term liquidity by about 1 trillion yuan and push down lending rates. The policy change conveyed a sense of urgency by the government and was accompanied by other modest economic support measures, but the question remains whether stronger credit demand will follow. The recent record suggests that a lack of credit demand rather than supply or rates is the binding constraint for stronger growth. CNH saw a small gain after the announcement and added some support to the NZD and AUD. CNH and CNY currently trade with a 7.15 handle.

The Bank of Canada held its policy rate steady at 5% and moved from a tightening to neutral bias. Governor Macklem said that the discussion has moved from determining the terminal policy rate to how long the policy rate should stay at 5.0% and he said that they are still concerned about the persistence in underlying inflation,

“what that means is that it’s premature to discuss reducing our policy rate”. The CAD weakened post-announcement and has been the only major currency not to gain against a broadly softer USD overnight. NZD/CAD is up 1% since this time yesterday to 0.8265.

Global PMI data were mixed, stronger than expected across the board for the manufacturing sector, although with figures in contractionary territory for the euro area and UK and only just above 50 for the US. For the services sector, the figures were slightly weaker than expected for the euro area and stronger for the UK and US.

For the UK, the composite index rose to a seven-month high of 52.5, defying other economic indicators suggesting an economy near recession. Traders modestly pared rate cut expectations, with the first full cut now not priced until August, and GBP strengthened. EUR also found support after the data, despite the lack of growth pulse, taking solace in a small lift in the composite index to 47.9.

The figures for the US are less regarded than the ISM figures, which are based on a much larger sample and have a longer history, but the message remained one of economic resilience and weaker inflation. The breakdown showed the selling prices index at the lowest level in 3½ years, driven by the services index, consistent with sub 2% inflation.

All the news noted seems to have supported risk appetite, with the US S&P500 index currently up 0.7% and breaking 4900 for the first time. The Euro Stoxx 600 index rose 1.2%, with the narrower Euro Stoxx 50 index closing up 2.2% to its highest level since 2001. Global bond markets only show small moves. The US 10-year Treasury yield is up 1bps on the day to 4.14%, although rates were drifting down through much of the overnight session to 4.09% before jumping higher following the US PMI release.

Higher risk appetite is reflected in the commodities market, with widespread gains and Brent crude moving to the top of its trading range this year, back above the USD80 per barrel mark.

The USD is broadly weaker, with the DXY index down 0.5% for the day. The NZD is up 1% from this time yesterday to 0.6130 after meeting some resistance just under 0.6150 overnight. The AUD has recovered to just over 0.66. NZD/AUD has sustained the boost seen following NZ’s CPI

release (see below), and trades at 0.9280, after falling short of 0.93 overnight. The NZD is modestly higher on all key crosses over the past 24 hours.

NZ's much anticipated Q4 CPI report came in bang in line with market expectations, at 0.5% q/q and 4.7% q/q, helped by the new monthly price indicators that give a good heads-up regarding some of the more volatile components. The key take-out from the release was that inflation was falling significantly, best illustrated by the seasonally adjusted CPI inflating at its lowest rate in three years. The 0.7 q/q lift in seasonally adjusted headline inflation puts annualised inflation back within the 1-3% target range. All core measures of inflation have been rapidly falling rapidly as well.

However, the market was disappointed with the fact that non-tradeables inflation was slightly stronger than the RBNZ's pick and thereby providing the Bank a narrow talking point if it wanted to reiterate its discomfort with inflation and its overt tightening bias. We, and the market, disagree with this narrative and, of note, the seasonally adjusted lift for this sector was also near a three-year low.

The market still prices in at least three rate cuts this year but there was a modest lift in rates across the curve. Many factors were in play, including one-sided market positioning, a heavy global market backdrop in the hours after the release, and the early-morning announcement by NZDM that it expected to launch, via syndication, a new 2054 nominal bond in Q1. In terms of timing, we think the week beginning 19 February seems the most likely window.

By the close, NZ swaps were 5-7bps higher across the curve, a few basis points off their peak for the day, and

with a slight steepening bias. Despite NZDM's announcement, NZGBs rates rose slightly less than swaps, with the 10-year rate rising just 5bps to 4.72%.

Tonight, the ECB is widely expected to keep policy unchanged. No new forecasts are released, but inflation has been running well below the ECB's previous projections. Last week, President Lagarde said that the ECB would likely cut rates in the summer. Expect some pushback on an earlier easing, given concern about high wage inflation.

In the US, the consensus expects 2% annualised Q4 GDP growth, with the core PCE deflator on target at 2.0%, in line with the coveted soft-landing scenario the Fed has been aiming for. US trade, durable goods orders, jobless claims and new home sales data are also released.

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Coming Up

		Period	Cons.	Prev.	NZT
GE	IFO expectations	Jan	84.8	84.3	22:00
EC	ECB deposit facility rate (%)	Jan	4.0	4.0	02:15
US	GDP (annualised q/q%)	Q4	2.0	4.9	02:30
US	Core PCE deflator (ann'lds q/q%)	Q4	2.0	2.0	02:30
US	Goods trade balance (\$b)	Dec	-88.7	-90.3	02:30
US	Durable goods orders (m/m%)	Dec	1.5	5.4	02:30
US	Durables ex trans. (m/m%)	Dec	0.2	0.4	02:30
US	Initial jobless claims (k)	20-Jan	200	187	02:30
US	New home sales (k)	Jan	649	590	04:00

Source: Bloomberg, BNZ

Currencies							Equities				Commodities		
Indicative overnight ranges (*)					Other FX		Major Indices				Price (Near futures, except CRB)		
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day		
NZD	0.6131	+0.5	0.6101	0.6149	CHF	0.8624	-0.9		S&P 500	4,900	+0.7	22.0	
AUD	0.6608	+0.4	0.6571	0.6621	SEK	10.407	-0.7		Dow	38,044	+0.4	12.8	
EUR	1.0906	+0.5	1.0860	1.0932	NOK	10.434	-0.7		Nasdaq	15,627	+1.3	37.9	
GBP	1.2747	+0.5	1.2700	1.2775	HKD	7.818	-0.0		Stoxx 50	4,564	+2.2	9.9	
JPY	147.19	-0.8	146.66	147.96	CNY	7.158	-0.2		FTSE	7,528	+0.6	-3.0	
CAD	1.3481	+0.1			SGD	1.338	-0.3		DAX	16,890	+1.6	11.9	
NZD/AUD	0.9278	+0.0			IDR	15,713	+0.5		CAC 40	7,456	+0.9	5.7	
NZD/EUR	0.5622	-0.0			THB	35.66	-0.1		Nikkei	36,226	-0.8	32.2	
NZD/GBP	0.4810	+0.0			KRW	1,337	+0.3		Shanghai	2,821	+1.8	-13.6	
NZD/JPY	90.24	-0.3			TWD	31.35	+0.0		ASX 200	7,519	+0.1	0.7	
NZD/CAD	0.8265	+0.6			PHP	56.32	+0.3		NZX 50	11,857	+0.5	-1.1	
NZ TWI	71.48	+0.2							VIX Index	12.68	+1.0	-34.0	
Interest Rates													
	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	4.22	3.78	USD	4.14	0.02	15-May-26	4.61	0.05	BKBM 1-mth	5.58	0.00
AUD	4.35	4.35	4.06	4.48	AUD	4.23	0.04	15-Apr-27	4.47	0.04	BKBM 3-mth	5.65	0.01
NZD	5.50	5.65	4.79	4.47	NZD	4.72	0.05	15-May-28	4.41	0.04	1 year	5.35	0.03
EUR	4.00	3.95	3.03	2.73	GER	2.34	-0.01	20-Apr-29	4.41	0.04	2 year	4.79	0.05
GBP	5.25	5.32	4.40	3.76	GBP	4.01	0.02	15-May-31	4.57	0.04	3 year	4.50	0.05
JPY	-0.01	-0.03	0.23	0.92	JPY	0.72	0.05	15-May-32	4.62	0.04	5 year	4.33	0.05
CAD	5.00	5.41	4.46	3.80	CAD	3.46	-0.02	14-Apr-33	4.67	0.05	7 year	4.36	0.06
					NZ Inflation-Indexed Bonds			15-May-34	4.72	0.05	10 year	4.47	0.07
					Sep-30	2.49	0.08	15-May-41	5.01	0.05	15 year	4.63	0.07
					Sep-35	2.80	0.08	15-May-51	5.01	0.06			
					Sep-40	3.04	0.08						
* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer													
Rates are as of: NZT 06:57													
Source: Bloomberg													

NZD exchange rates

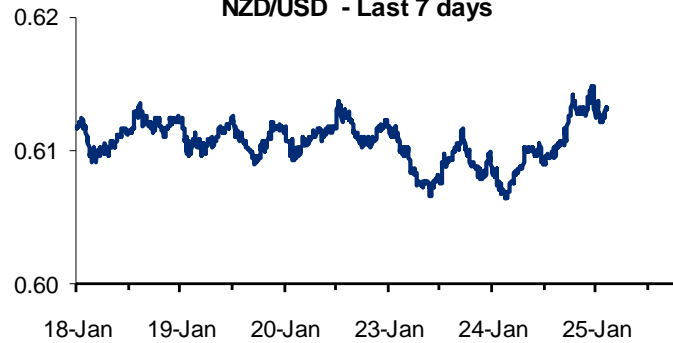
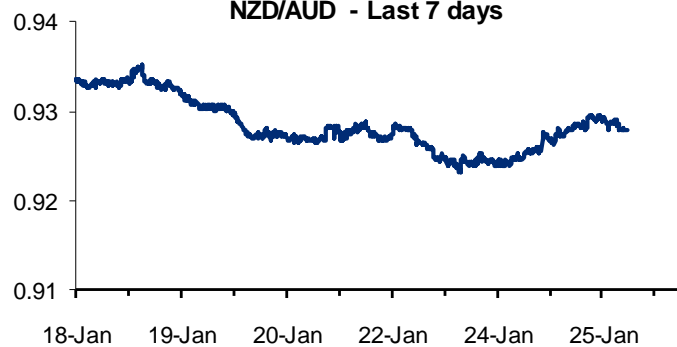
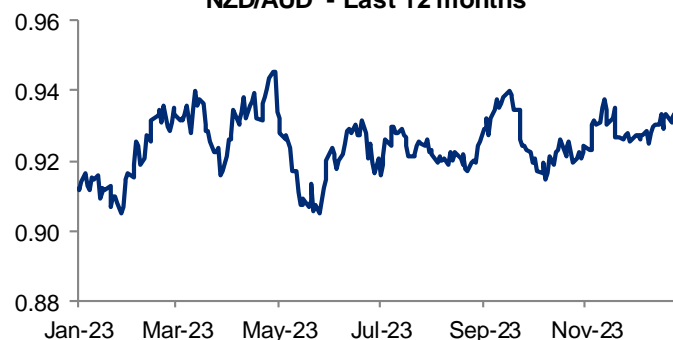
25/01/2024	6:57 am	Prev. NY close
USD	0.6131	0.6102
GBP	0.4810	0.4810
AUD	0.9278	0.9274
EUR	0.5622	0.5622
JPY	90.24	90.52
CAD	0.8265	0.8215
CHF	0.5287	0.5310
DKK	4.1921	4.1915
FJD	1.3893	1.3827
HKD	4.7932	4.7729
INR	50.97	50.74
NOK	6.3971	6.4095
PKR	171.54	170.76
PHP	34.53	34.27
PGK	2.2928	2.2811
SEK	6.3807	6.3976
SGD	0.8200	0.8185
CNY	4.3886	4.3762
THB	21.88	21.78
TOP	1.4245	1.4341
VUV	74.15	73.85
WST	1.6630	1.6611
XPF	66.94	66.78
ZAR	11.5604	11.6189

NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.12	0.29
3 Months	-0.35	0.09
6 Months	-3.95	-2.94
9 Months	-9.99	-7.88
1 Year	-16.98	-13.97

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-8.72	-8.16
3 Months	-26.04	-25.15
6 Months	-48.72	-46.27
9 Months	-65.59	-60.63
1 Year	-78.80	-71.51

NZD/USD - Last 7 days**NZD/AUD - Last 7 days****NZD/USD - Last 12 months****NZD/AUD - Last 12 months**

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