Research Markets Today

25 October 2023

Events Round-Up

- GE: GfK consumer confidence, Nov: -28.1 vs. -27.0 exp.
- GE: Manufacturing PMI, Oct: 40.7 vs. 40.1 exp.
- GE: Services PMI, Oct: 48.0 vs. 50.0 exp.
- EC: Manufacturing PMI, Oct: 43.0 vs. 43.7 exp.
- EC: Services PMI, Oct: 47.8 vs. 48.6 exp.
- UK: Manufacturing PMI, Oct: 45.2 vs. 44.7 exp.
- UK: Services PMI, Oct: 49.2 vs. 49.3 exp.
- US: Manufacturing PMI, Oct: 50.0 vs. 49.4 exp.
- US: Services PMI, Oct: 50.9 vs. 49.9 exp.

Good Morning

The key market movement overnight has been broad USD strength, seemingly kicked off after some weak European PMI data, but it might also just be a case of an unwind of the previous day's move. NZD/AUD has gone sub-0.92, ahead of key Australian CPI data today. The US 10-year rate has sustained the move lower seen in the previous session.

Euro area PMIs edged lower and were weaker than expected, the composite index falling less than a point to 46.5, but raising the chance that GDP might show a contraction for Q4. The UK services PMI was relatively steady at 49.2, consistent with the economy remaining sluggish. UK labour market data under a new methodology showed a third consecutive three-monthly fall in employment in August. The unemployment rate was 4.2%, a near 2-year high, although revised down from 4.3% under the previous methodology.

Meanwhile, US PMIs were slightly stronger than expected, with both the manufacturing and services indices now at, or above, the 50 mark. The 0.8pt lift in the services index to 51.0 closes the gap with the much stronger ISM version which sits at 53.6. The selling price index fell to a threeyear low and is now close to the pre-pandemic long-run average.

The data only served to highlight the gulf between the better performing US economy and sluggish growth across Europe. The DXY USD index is up 0.7% on the day, albeit simply rebounding from three days of losses. So EUR is back trading below 1.06 after brief probe up towards 1.07, while GBP is down at 1.2160 after trading up towards 1.23.

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The other notable price action in currency markets is a further grind down in NZD/AUD, taking it below 0.92, well below the 0.94 mark over just over week ago. There has obviously been some positioning adjustments after NZ's softer than expected CPI report last week and slightly more hawkish commentary coming out of the RBA. Last night RBA Governor Bullock reiterated the message we heard last week, that "the Board will not hesitate to raise the cash rate further if there is a material upward revision to the outlook for inflation".

That makes today's Australian CPI report important. The consensus is picking trimmed mean inflation above the RBA's 0.9% q/q pick, with the market median at 1.0% and the mode at 1.1%. Higher inflation would keep alive the chance of another rate hike next month. A softer figure, like we saw with NZ's CPI last week, could result in a sharp reversal of the cross, while a strong figure would support a further grind lower.

The broadly stronger USD sees the NZD down to 0.5840, slightly weaker than this time yesterday, and down from an overnight high of 0.5873. The AUD is the only major higher than this time yesterday and is currently 0.6355.

Oil prices have fallen about 2%, with Brent crude down to a USD88 handle, on easing concerns that the conflict between Israel and Hamas will widen across the Middle East. Israel's delay to any ground invasion in the Gaza strip and G5 diplomatic efforts to prevent an escalation are seemingly factors here. Interestingly, the exact opposite sentiment is conveyed by the WSJ, with its lead article on Iranian-backed militias mounting a new wave of attacks as US supports Israel, and that raising the risks of larger conflict in the region.

For oil, it might just be a case of easier supply/demand conditions. Data show a steady climb in Russia's seaborne crude exports – up about 600,000 barrels per day in the past two months – which is helping alleviate tight conditions in the oil market.

In the bond market, the US 10-year Treasury yield has sustained the big fall seen over the previous session and currently sits at 4.83%, down a touch from the NZ close and down 2bps for the day. The curve has flattened, with the 2-year rate up 4bps to 5.09%, with a run up to 5.13% after the stronger US PMI data not being sustained.

Domestic rates were much lower across the curve yesterday, supported by global forces. NZGBs fell 8-9bps on a light trading day, seeing the 10-year rate close at 5.45%. The swaps curve showed more of a flattening bias, with the 2-year rate down "only" 6bps to 5.58% while the 10-year rate fell 9bps to 5.27%.

After five consecutive daily losses, the S&P500 is on track for a positive session, although the index is currently only up 0.4%, after being up 1% earlier in the session.

In other news, as media reports forewarned earlier this month, China's government approved a rare mid-year budgetary expansion that will take the fiscal deficit up to 3.8% of GDP, higher than the usual 3% limit, a plan that will require an additional 1 trillion yuan (USD137b) of debt. The fiscal easing underlines government concerns about the economy's trajectory. Earlier in the day, Bloomberg reported that President Xi made his first known visit to the PBoC and tacked on a visit to the state sovereign fund (SAFE), adding to the sense that the leadership is taking a more hands-on approach to support the economy and financial markets.

In the day ahead focus will be on Australia's Q3 CPI report, as noted above, with RBA policy sensitive to how quickly inflation can return to the target range. The Bank of Canada is widely expected to keep its policy rate unchanged at 5.0% at its meeting tonight.

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Coming Up

		Period	Cons.	Prev.	NZT
AU	СРІ (у/у%)	Q3	5.3	6.0	13:30
AU	CPI trimmed mean (y/y%)	Q3	5.0	5.9	13:30
AU	CPI trimmed mean (q/q%)	Q3	1.0	0.9	13:30
GE	IFO expectations	Oct	83.5	82.9	21:00
CA	Bank of Canada policy rate (%)	Oct	5.0	5.0	03:00
US	New home sales (k)	Sep	680	675	03:00

Source: Bloomberg, BNZ

								Equities				Commodities	**	
Indicative overnight ranges (*)			Other FX		Major Indice	Major Indices			Price					
	Last	% Day	Low	High		Last	% Day		Last	% Day	% Year		Last	Net Day
NZD	0.5842	-0.1	0.5829	0.5873	CHF	0.8933	+0.2	S&P 500	4,235	+0.4	11.5	Oil (Brent)	88.15	-1.8
AUD	0.6355	+0.3	0.6344	0.6379	SEK	11.115	+1.3	Dow	33,070	+0.4	5.0	Oil (WTI)	83.78	-2.0
EUR	1.0590	-0.7	1.0583	1.0694	NOK	11.171	+0.8	Nasdaq	13,082	+0.5	19.4	Gold	1975.0	-0.2
GBP	1.2163	-0.7	1.2154	1.2289	HKD	7.824	-0.0	Stoxx 50	4,065	+0.6	15.2	HRC steel	702.0	+0.1
JPY	149.86	+0.1	149.32	149.93	CNY	7.311	+0.0	FTSE	7,390	+0.2	5.4	CRB	283.4	-0.9
CAD	1.3736	+0.3			SGD	1.368	+0.1	DAX	14,880	+0.5	15.1	Wheat Chic.	606.8	-1.3
NZD/AUD	0.9193	-0.4			IDR	15,849	-0.5	CAC 40	6,894	+0.6	12.4	Sugar	27.53	+0.4
NZD/EUR	0.5517	+0.7			THB	36.15	-0.4	Nikkei	31,062	+0.2	14.0	Cotton	83.04	-0.8
NZD/GBP	0.4803	+0.6			KRW	1,343	-0.8	Shanghai	2,962	+0.8	-0.5	Coffee	168.2	+1.7
NZD/JPY	87.55	+0.0			TWD	32.28	-0.3	ASX 200	6,857	+0.2	0.9	WM powder	3270	-0.8
NZD/CAD	0.8025	+0.3			PHP	56.76	-0.1	NZX 50	10,961	-0.3	0.5	Australian Fu	tures	
NZ TWI	69.51	-0.1										3 year bond	95.83	0.07
Interest	Rates											10 year bond	95.28	0.00
	Rates Swap Yields			Benchmark 10 Yr Bonds			NZ Governn	NZ Government Bonds			NZ Swap Yields			
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day	_		Last			Last	
USD	5.50	5.64	4.95	4.49	USD	4.83	-0.02	15-Apr-25		5.59	-0.01	1 year	5.77	-0.03
AUD	4.10	4.23	4.40	5.00	AUD	4.69	-0.10	15-Apr-27		5.29	-0.09	2 year	5.58	-0.06
NZD	5.50	5.65	5.58	5.27	NZD	5.45	-0.09	15-May-28		5.30	-0.09	5 year	5.23	-0.10
EUR	4.00	3.96	3.72	3.39	GER	2.83	-0.05	15-May-31		5.41	-0.09	7 year	5.22	-0.10
GBP	5.25	5.39	5.04	4.41	GBP	4.54	-0.06	14-Apr-33		5.45	-0.09	10 year	5.27	-0.09
JPY	-0.01	-0.03	0.25	1.06	JPY	0.85	-0.03	15-May-41		5.66	-0.08	15 year	5.34	-0.09
CAD	5.00	5.59	5.17	4.50	CAD	4.02	0.01	15-May-51		5.60	-0.08			

 * 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 06:56

Source: Bloomberg

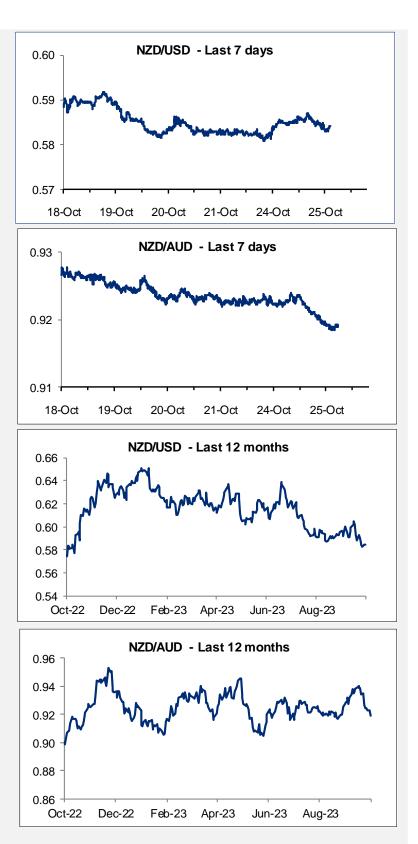
NZD exchange rates							
24/10/2023	6:56 am	Prev. NY close					
USD	0.5842	0.5846					
GBP	0.4803	0.4773					
AUD	0.9193	0.9227					
EUR	0.5517	0.5479					
JPY	87.55	87.52					
CAD	0.8025	0.8004					
CHF	0.5219	0.5209					
DKK	4.1171	4.0892					
FJD	1.3356	1.3433					
HKD	4.5705	4.5739					
INR	48.60	48.59					
NOK	6.5260	6.4768					
PKR	163.25	163.18					
PHP	33.16	33.23					
PGK	2.1557	2.1620					
SEK	6.4934	6.4151					
SGD	0.7991	0.7990					
CNY	4.2712	4.2728					
THB	21.13	21.35					
TOP	1.3624	1.3681					
VUV	72.04	72.39					
WST	1.6138	1.6209					
XPF	65.71	65.63					
ZAR	11.1193	11.0851					

NZD/USD Forward Points

BNZ buys NZD	BNZ sells NZD
0.08	0.38
0.83	1.34
1.37	2.56
-0.83	1.15
-6.46	-3.46
	0.08 0.83 1.37 -0.83

NZD/AUD Forward points

BNZ buys NZD	BNZ Sells NZD
-10.18	-9.43
-29.79	-28.48
-53.78	-50.52
-76.81	-71.55
-99.57	-90.61
	-10.18 -29.79 -53.78 -76.81



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