

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 three-year 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.

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.

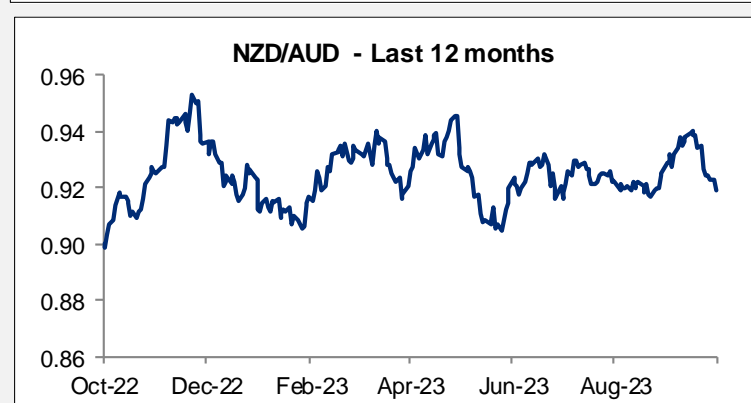
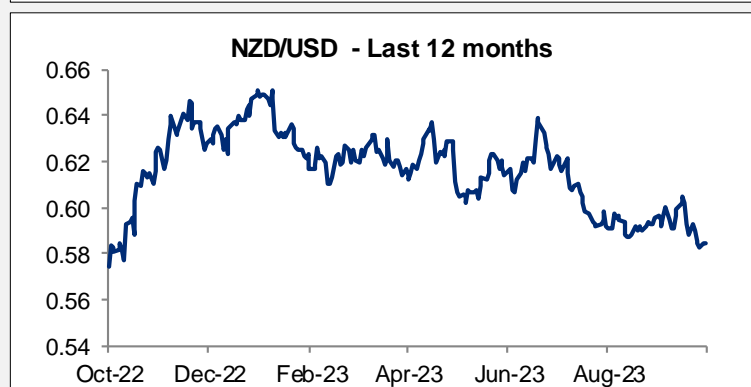
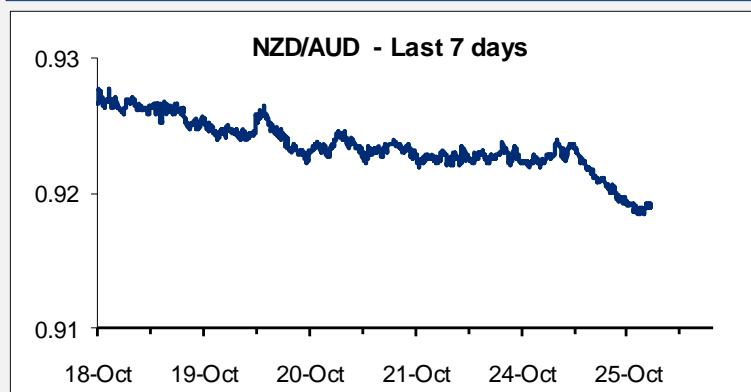
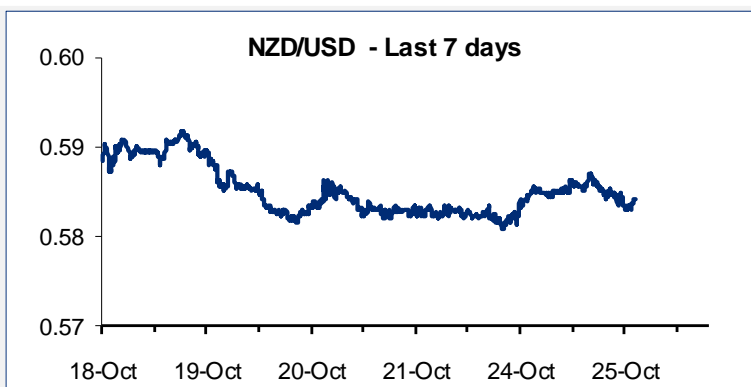
Oil prices have fallen about 2%, with Brent crude down to a USD88 handle, on easing concerns that the conflict between Israel and Hamas will widen across the Middle East. Israel's delay to any ground invasion in the Gaza strip and G5 diplomatic efforts to prevent an escalation are seemingly factors here. 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

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
1 Month	0.08	0.38
3 Months	0.83	1.34
6 Months	1.37	2.56
9 Months	-0.83	1.15
1 Year	-6.46	-3.46

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-10.18	-9.43
3 Months	-29.79	-28.48
6 Months	-53.78	-50.52
9 Months	-76.81	-71.55
1 Year	-99.57	-90.61

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