BNZ MARKETS
Research

Markets Today

26 April 2024

Events Round-Up

NZ: Trade Balance (ann $b), Mar: -9.9 vs. 12.1 prev.

AU: CPI trimmed mean (q/q%), Q1: 1.0 vs. 0.8 exp.

AU: CPI trimmed mean (y/y%), Q1: 4.0 vs. 3.8 exp.

GE: IFO expectations, Apr: 89.9 vs. 88.9 exp.

US: Durable gds orders, Mar: 2.6 vs. 2.5 exp.

US: Durables ex transport., Mar: 0.2 vs. 0.2 exp.

US: GDP (ann'lsd q/q%), Q1: 1.6 vs. 2.5 exp.

US: Core PCE deflator, (ann'lsd q/q%), Q1: 3.7 vs. 3.4 exp.

US: Goods trade balance ($b), Mar: -91.8 vs. -91.0 exp.

US: Initial jobless claims (k), wk to Apr-20: 207 vs. 215 exp.

US: Pending home sales (m/m%), Mar: 3.4 vs. 0.4 exp.

Good Morning

The US GDP report released overnight could be described as anti-Goldilocks, with both weaker growth and higher inflation than expected. The rates market was more focused on the latter than the former, seeing a further paring of US rate cut expectations, sending yields higher. A stronger USD reaction wasn't sustained and the NZD is little changed at 0.5945 from where we left it ahead of the ANZAC day holiday. The yen continues to underperform, raising the spectre of official intervention. A better strategy would be for the BoJ to convey a more hawkish tone at today's policy update.

US GDP rose by an annualised 1.6%, below the 2.5% consensus, partially explained by a shortfall in private consumption (2.5% against 3.0% expected). Inventories and net trade made negative contributions and weaker government spending was a drag. The only bright spot was strength in residential investment, supported by lower mortgage rates and favourable weather, factors that have since reversed, while business investment was sluggish.

While growth for the quarter was the weakest in nearly two years, underlying inflation picked up. This has been evident in recent CPI data, but the core PCE deflator was stronger than expected, running at an annualised 3.7% (3.4% expected). That means either March was much stronger than expected (the monthly breakdown will be released tonight), or January/February were revised higher.

In other data, initial jobless claims unexpectedly fell 5k last week to 207k, suggesting ongoing labour market resilience against the narrative suggested by other indicators, while pending home sales were much stronger than expected, rising 3.4% m/m in March.

The bond market didn't like the data, with yields shooting higher post the GDP release and most of the rise being sustained. The 2-year Treasury continues to find support around 5%, while the 10-year rate traded at a fresh 2024 high of 4.735%. The yield is currently 4.70%, about 8bps higher from the NZ close pre-ANZAC day.

The higher inflation backdrop has seen a further paring of Fed rate cut expectations, with November priced closed to 25bps and 34bps by December, the smallest amount of cuts priced this year (and compared to the nearly 160bps of easing priced at the start of the year).

The US equity market didn't like the softer GDP print and higher rates, and the S&P500 was down as much as 1.6% in early trading, but the loss has since been pared to 0.7%. Much of that reflects the reaction to Meta's earnings result after yesterday's close (showing much higher than expected projected spending/capex), with the stock down over 11%. S&P futures are now little changed from the pre-GDP level.

Interestingly, the currency market reaction to the GDP print has been modest. While the USD immediately strengthened – clearly reacting to the inflation than growth print – the gain has been fully reversed and now shows little net change compared to the pre-GDP level, even though the paring in Fed rate cut expectations has been sustained. This offers a hint that Fed rate expectations might be becoming a less significant force on the USD with potentially other factors taking over. Overly long positioning in the USD and the closing of the gap between US/global relative growth performance could be such factors.

When we look at currency performance since the NZ close ahead of the ANZC day holiday, most majors show little net movement. The NZD has been well-contained within a half-cent range and little changed at 0.5945. The AUD is flat at 0.6515. GBP is ½% stronger, reversing its loss earlier in the week. CAD and is flat and EUR shows a small gain.

A notable underperformer (albeit showing a loss of only ½%) has been the yen. USD/JPY easily charged up through the 155 mark yesterday, taking the yen to a fresh 34-year low, increasing the chance of official intervention. The market has been ignoring the daily warnings of Japanese officials and seems willing to test their tolerance for a weaker currency. Of note, even exporters are complaining that the yen is too weak, with the rising cost of imports impacting on profitability. Add that to the public's unease with the ongoing loss of international purchasing power, a weaker yen is looking unpopular all-round.

The BoJ meets today and is unlikely to hike rates again so soon after the symbolic first hike since 2007 at its meeting last month. Focus will be on the revised inflation forecasts that could set the scene for another hike within the next few months. If there is concern about the weaker yen, then the best strategy would be a more hawkish policy uptake than the disappointing dovish outlook tone offered after the historic March rate hike.

In terms of other news, albeit now more than 24 hours old, according to the IFO survey, German business sentiment improved by more than expected, to its highest level in a year. The data corroborated the stronger services sector PMI data earlier in the week, suggesting positive growth momentum after the economic struggles of last year.

Ahead of the ANZAC holiday, Australian CPI data were hotter than expected, the trimmed mean measure up 1% for the quarter and 4% for the year, two-tenths higher than consensus estimates. This is likely to see the RBA revise higher its inflation projections, alongside a lower unemployment rate after recent strength in labour market data. A number of economists pushed out their projected timing of the first easing in policy, some later 2024 and some into 2025. Australian rates and the AUD shot higher, spilling over into the NZ market. NZD/AUD fell from 0.9150 to a 10-month low just above 0.91 in the aftermath of the release, but it has since settled around 0.9130.

On Wednesday, NZGB yields closed 3-4bps higher across the curve and swap rates were up 4-5bps. Post the Australian CPI print, rates were higher going into the weekly bond tender and this resulted in strong bidding across the two lines on offer, with nearly $1.5b in bids for the $500m on offer and clearing around 2bps premia through prevailing mids. Since the NZ close, Australian 10-year bond futures are up 11bps in yield terms and we've noted the 8bps lift in the US 10-year rate, setting the scene for higher NZ rates on the open.

In the day ahead, we've already noted the key BoJ policy update, which will be out late afternoon NZ time. NZ consumer confidence data are released this morning. The US core PCE deflator was expected to be 0.3% m/m in March, a tick lower than the core CPI released earlier this month, but the quarterly release overnight raises the chance of a stronger monthly print, it'll all depend on the extent of revisions for January/February.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	ANZ consumer confidence	Apr		86.4	10:00
UK	GfK consumer confidence	Apr	-20	-21	11:01
JN	Tokyo CPI (y/y%)	Apr	2.5	2.6	11:30
JN	Tokyo CPI x fr. fd., energy (y/y%)	Apr	2.7	2.9	11:30
JN	BOJ target rate (upper bound)	Apr	0.1	0.1	
US	Personal income (m/m%)	Mar	0.5	0.3	00:30
US	Real personal spending (m/m%)	Mar	0.3	0.4	00:30
US	PCE core deflator (m/m%)	Mar	0.3	0.3	00:30
US	PCE core deflator (y/y%)	Mar	2.7	2.8	00:30
US	U. of Mich. consumer sentiment	Apr	77.9	77.9	02:00
US	U. of Mich. 5-10yr inflation exp.	Apr		3.0	02:00

Source: Bloomberg, BNZ

Currencies

Global froces	Last	% Day	Low	High
			Indicative overnight ranges (*)	
NZD	0.5945	+0.2	0.5920	0.5967
AUD	0.6514	+0.2	0.6485	0.6538
EUR	1.0728	+0.3	1.0678	1.0739
GBP	1.2508	+0.4	1.2457	1.2524
JPY	155.59	+0.2	155.33	155.75
CAD	1.3663	-0.3		
NZD/AUD	0.9126	-0.1		
NZD/EUR	0.5542	-0.1		
NZD/GBP	0.4753	-0.2		
NZD/JPY	92.50	+0.4		
NZD/CAD	0.8123	-0.1		
NZ TWI	70.45	+0.0		

Other FX	Last	% Day
CHF	0.9124	-0.3
SEK	10.894	+0.1
NOK	10.967	-0.2
HKD	7.828	-0.0
CNY	7.240	-0.1
SGD	1.360	-0.2
IDR	16,188	+0.2
THB	37.04	-0.0
KRW	1,374	+0.4
TWD	32.59	+0.1
PHP	57.79	+0.4

Equities

Major Indices	Last	% Day	% Year
S&P 500	5,036	-0.7	23.7
Dow	38,007	-1.2	13.3
Nasdaq	15,572	-0.9	32.0
Stoxx 50	4,939	-1.0	12.8
FTSE	8,079	+0.5	2.4
DAX	17,917	-0.9	12.9
CAC 40	8,017	-0.9	6.4
Nikkei	37,628	-2.2	32.4
Shanghai	3,053	+0.3	-6.5
ASX 200	7,683	-0.0	4.9
NZX 50	11,946	+1.2	-0.7
VIX Index	16.35	+2.4	-12.8

Commodities

Price (Near futures, except CRB)	Last	Net Day
Oil (Brent)	89.11	+1.3
Oil (WTI)	83.66	+1.0
Gold	2329.8	+0.2
HRC steel	812.0	+0.2
CRB	297.1	-0.2
Wheat Chic.	620.5	+1.2
Sugar	19.48	-2.9
Cotton	79.58	-0.9
Coffee	228.1	+0.0
WM powder	3130	-0.9
Australian Futures		
3 year bond	95.96	-0.02
10 year bond	95.47	-0.08

Interest Rates

	Rates: Cash	3Mth	Swap Yields: 2 Yr	10 Yr
USD	5.50	5.59	4.92	4.33
AUD	4.35	4.37	4.37	4.74
NZD	5.50	5.63	5.13	4.76
EUR	4.00	3.88	3.38	2.92
GBP	5.25	5.30	4.74	4.10
JPY	0.14	-0.03	0.40	1.03
CAD	5.00	5.28	4.72	4.19

Benchmark 10 Yr Bonds	Last	Net Day
USD	4.70	0.06
AUD	4.41	0.00
NZD	4.92	0.03
GER	2.63	0.04
GBP	4.36	0.03
JPY	0.90	-0.01
CAD	3.86	0.07

NZ Inflation-Indexed Bonds		
Sep-30	2.50	0.02
Sep-35	2.82	0.02
Sep-40	3.01	0.02

NZ Government Bonds	Last	Chg
15-May-26	4.92	0.03
15-Apr-27	4.78	0.03
15-May-28	4.73	0.04
20-Apr-29	4.72	0.04
15-May-30	4.75	0.04
15-May-31	4.79	0.04
15-May-32	4.84	0.04
14-Apr-33	4.87	0.04
15-May-34	4.92	0.03
15-May-35	4.98	0.03
15-May-37	5.07	0.03
15-May-41	5.18	0.03
15-May-51	5.17	0.03
15-May-54	5.19	0.03

NZ BKBM and Swap Yields	Last	Chg
BKBM 1-mth	5.60	0.00
BKBM 3-mth	5.63	-0.00
1 year	5.52	0.02
2 year	5.13	0.04
3 year	4.88	0.04
5 year	4.70	0.05
7 year	4.69	0.05
10 year	4.76	0.05
15 year	4.89	0.05

* These are indicative r 06:59
please confirm rates with your BNZ dealer
Rates are as of: NZT
Source: Bloomberg

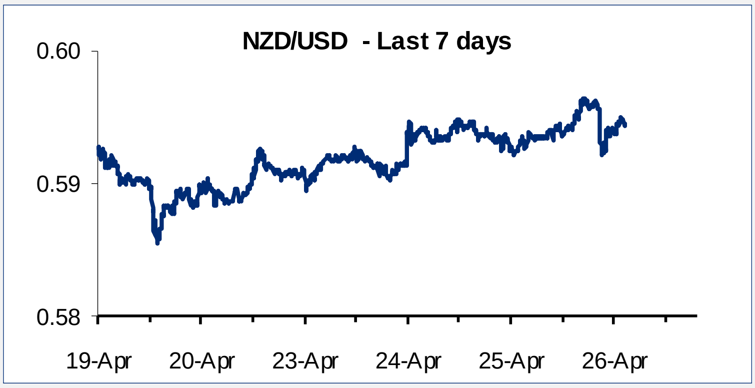
NZD exchange rates		
26/04/2024	**6:59 am**	**Prev. NY close**
USD	0.5945	0.5936
GBP	0.4753	0.4763
AUD	0.9126	0.9135
EUR	0.5542	0.5548
JPY	92.50	92.22
CAD	0.8123	0.8134
CHF	0.5424	0.5432
DKK	4.1328	4.1380
FJD	1.3617	1.3602
HKD	4.6537	4.6489
INR	49.54	49.46
NOK	6.5198	6.5205
PKR	165.59	165.07
PHP	34.36	34.17
PGK	2.2579	2.2459
SEK	6.4767	6.4607
SGD	0.8083	0.8085
CNY	4.3041	4.3012
THB	22.01	21.98
TOP	1.3919	1.3928
VUV	72.73	72.63
WST	1.6297	1.6250
XPF	66.11	66.14
ZAR	11.3031	11.4135

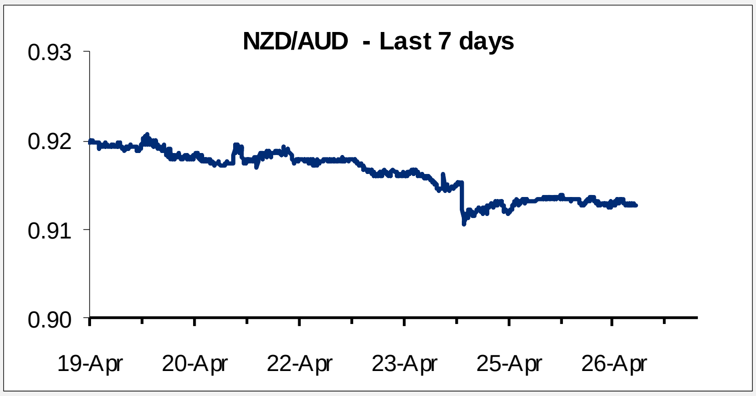
NZD/USD Forward Points

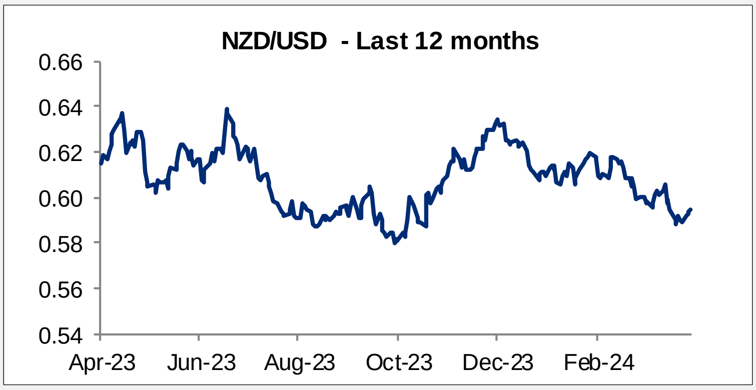
	BNZ buys NZD	BNZ sells NZD
1 Month	-0.15	0.16
3 Months	-0.08	0.42
6 Months	-0.30	0.75
9 Months	-0.85	1.30
1 Year	-1.54	1.46

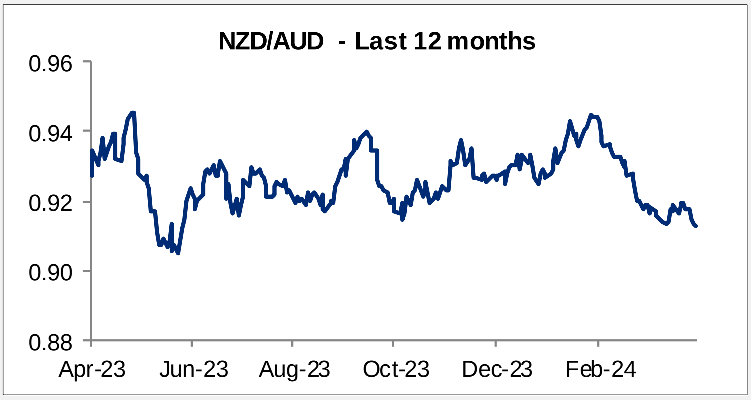
NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-8.53	-7.79
3 Months	-23.93	-22.74
6 Months	-43.94	-40.95
9 Months	-60.17	-54.75
1 Year	-73.23	-65.17









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