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Research

Markets Today

26 January 2024

Events Round-Up

GE: IFO expectations, Jan: 83.5 vs. 84.8 exp.

EA: ECB deposit facility rate (%), Jan: 4.0 vs. 4.0 exp.

US: GDP (annualised q/q%), Q4: 3.3 vs. 2.0 exp.

US: PCE deflator (ann'lds q/q%), Q4: 1.5 vs. 2.2 exp.

US: Core PCE deflator (ann'lds q/q%), Q4: 2.0 vs. 2.0 exp.

US: Goods trade balance ($b), Dec: -88.5 vs. -88.7 exp.

US: Durable goods orders (m/m%), Dec: 0.0 vs. 1.5 exp.

US: Durables ex trans. (m/m%), Dec: 0.6 vs. 0.2 exp.

US: Initial jobless claims (k), 20-Jan: 214 vs. 200 exp.

US: New home sales (k), Jan: 664 vs. 649 exp.

Good Morning

Overnight, there was only a modest market reaction to stronger than expected US GDP figures and the ECB policy update. President Lagarde didn't significantly push back on market pricing for an early rate cut, seeing European rates and the EUR lower, but not materially so. US Treasury rates are slightly lower, with signs of inflation well under control despite the resilient economic backdrop. The NZD is tracking just over 0.61, little changed from the NZ close.

US economic data remain consistent with the Goldilocks theme of growth not too hot or cold and the Fed achieving the coveted soft-landing, as it succeeds in meeting its inflation target. GDP rose an annualised 3.3% in Q4, well above consensus of 2.0%, continuing the economic resilience theme and defying the predictions earlier last year of the economy likely heading into recession.

Growth was broadly based across private consumption (+2.8%), government spending (+3.3%), business investment (+1.9%), residential investment (+1.1%%), exports (+6.3%) and inventories. Importantly, inflation was well-contained, with a notable downward surprise for the PCE deflator, coming in at an annualised 1.5% and the core PCE deflator running at 2.0% for the second consecutive quarter. Job well done by the Fed.

Of the minor releases, initial jobless claims jumped 25k last week to 214k, proving that the previous week's 16-month low was exaggerated by seasonal effects. Durable goods orders were flat in December after strength the previous month but, excluding the volatile transport component, were stronger than expected at 0.6% m/m. New home sales rose at an annualised 8% in January.

After the initial sticker shock of the strong GDP print, the US 10-year Treasury yield tracked lower before pushing higher again. The net result is not much movement from the NZ-close figure of 4.16%, with an overnight range of 4.12-4.18%. The 2-year rate has sustained a move lower, down 5bps on the day to 4.33% - the theory being that if core inflation is at 2% and the effective Fed Funds rate is 5.33%, then the real policy rate of 3.33% is far too high and the Fed needs to begin cutting rates sooner, rather than later. The prospect of a March cut is priced as a near-even bet, with two CPI prints ahead of that largely determining whether the Fed pulls the trigger or not at that meeting.

As expected, the ECB kept policy unchanged, and with no new forecasts there was keen focus on President Lagarde's tone. She stood by her comments in Davos that the ECB would likely be cutting rates in the summer, but she didn't offer significant pushback to the market's view that rate cuts could come earlier. She noted downside risks to growth, projections for lower inflation, and that wage pressures have started to ease. The market is betting data over coming months could allow a rate cut as soon as April, with 22bps priced (from 16bps priced yesterday), and 52bps priced by June. Germany's 2-year rate fell 9bps on the day, with the 10-year rate down 5bps – larger rate falls compared to US Treasuries, exerting some downward pressure on EUR, down 0.4% to 1.0840.

Other currency movements have been insignificant, with net changes well contained. The NZD is currently 0.6115, little changed from the NZ close. Cross movements have been small, with a 0.5% lift in NZD/EUR to 0.5640 the largest. The AUD is flat at 0.6575, with NZD/AUD trading just under 0.93.

US equities are modestly stronger, with the S&P500 currently up 0.2%. Tesla, which has been considered part of the "magnificent seven", is a drag on the index, down 12% after a soft earnings report and a warning about its "notably lower" growth rate. Investors over the past three years would have been better to keep their money under the mattress. Ironically "old-school" IBM gave a bullish outlook and is up 11% on the day, for its strongest gain in more than two decades.

In the domestic rates market, the NZDM's bond tender was underwhelming for a second week, with low bid-cover ratios for the shorter dated bonds on offer (3 and 10-years) but stronger demand for the 13-year maturity. With the ultra-long bonds (not offered) still trading with a 5% handle, demand for this end of the curve is helping to flatten the curve. Demand for yield bodes well ahead of the syndication of the new 2054 bonds, expected to launch in a few weeks Despite the tepid tender for the 10-year bond, the 1bps lift in yield on the day to 4.73% was an outperformance against the 10-year swap rate which rose 5bps to 4.52%. The 2-year swap rate rose 2bps to 4.81%, so a steeper swap curve going against the grain of a flatter NZGB curve.

On the economic calendar the key release tonight will be the personal spending data in the US alongside the monthly breakdown of the PCE deflator, the market expecting a soft 0.2% m/m print for the core measure, which sees annual inflation fall to 3%. Ahead of that, Tokyo CPI data and consumer confidence data for the UK and Germany are released.

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Coming Up

		Period	Cons.	Prev.	NZT
JN	Tokyo CPI (y/y%)	Jan	2.0	2.4	12:30
JN	Tokyo CPI ex-fr. fd, energy (y/y%)	Jan	3.4	3.5	12:30
UK	GfK consumer confidence	Jan	-21	-22	13:01
GE	GfK consumer confidence	Feb	-24.6	-25.1	20:00
US	Personal income (m/m%)	Dec	0.3	0.4	02:30
US	Real personal spending (m/m%)	Dec	0.3	0.3	02:30
US	PCE core deflator (m/m%)	Dec	0.2	0.1	02:30
US	PCE core deflator (y/y%)	Dec	3.0	3.2	02:30
US	Pending home sales (m/m%)	Dec	2.0	0.0	04:00

Source: Bloomberg, BNZ

Currencies

Indicative overnight ranges (*)

	Last	% Day	Low	High
NZD	0.6113	+0.0	0.6104	0.6133
AUD	0.6575	-0.0	0.6571	0.6610
EUR	1.0836	-0.5	1.0824	1.0902
GBP	1.2686	-0.3	1.2682	1.2743
JPY	147.87	+0.2	147.09	147.92
CAD	1.3500	-0.2		
NZD/AUD	0.9297	+0.1		
NZD/EUR	0.5641	+0.5		
NZD/GBP	0.4819	+0.4		
NZD/JPY	90.39	+0.3		
NZD/CAD	0.8253	-0.1		
NZ TWI	71.46	+0.2		

Other FX

	Last	% Day
CHF	0.8676	+0.6
SEK	10.454	+0.2
NOK	10.466	-0.0
HKD	7.818	-0.0
CNY	7.174	+0.2
SGD	1.341	+0.1
IDR	15,826	+0.7
THB	35.78	+0.1
KRW	1,336	-0.1
TWD	31.31	-0.1
PHP	56.54	+0.4

Equities

Major Indices

	Last	% Day	% Year
S&P 500	4,879	+0.2	21.5
Dow	37,814	+0.0	12.1
Nasdaq	15,509	+0.2	37.1
Stoxx 50	4,582	+0.4	10.5
FTSE	7,530	+0.0	-2.8
DAX	16,907	+0.1	12.1
CAC 40	7,464	+0.1	6.0
Nikkei	36,236	+0.0	32.4
Shanghai	2,906	+3.0	-11.0
ASX 200	7,555	+0.5	1.2
NZX 50	11,890	+0.3	-1.1
VIX Index	13.44	+2.3	-29.6

Commodities

Price (Near futures, except CRB)

	Last	Net Day
Oil (Brent)	81.53	+1.9
Oil (WTI)	76.47	+1.9
Gold	2013.4	-0.1
HRC steel	1080.0	-0.3
CRB	271.0	+1.0
Wheat Chic.	622.5	+0.4
Sugar	24.15	-1.1
Cotton	85.76	+0.4
Coffee	187.0	-1.3
WM powder	3375	-0.6
Australian Futures		
3 year bond	96.22	0.00
10 year bond	95.75	0.04

Interest Rates

	Rates Cash	Rates 3Mth	Swap Yields 2 Yr	Swap Yields 10 Yr
USD	5.50	5.59	4.19	3.79
AUD	4.35	4.35	4.05	4.48
NZD	5.50	5.66	4.81	4.52
EUR	4.00	3.93	2.95	2.67
GBP	5.25	5.33	4.36	3.76
JPY	-0.01	-0.03	0.24	0.94
CAD	5.00	5.41	4.42	3.81

Benchmark 10 Yr Bonds

	Last	Net Day
USD	4.15	-0.02
AUD	4.24	0.01
NZD	4.73	0.01
GER	2.29	-0.05
GBP	3.98	-0.03
JPY	0.75	0.03
CAD	3.48	-0.02

NZ Inflation-Indexed Bonds

Sep-30	2.52	0.02
Sep-35	2.83	0.02
Sep-40	3.06	0.02

NZ Government Bonds

	Last	Chg
15-May-26	4.63	0.02
15-Apr-27	4.49	0.02
15-May-28	4.43	0.02
20-Apr-29	4.43	0.02
15-May-30	4.50	0.02
15-May-31	4.58	0.01
15-May-32	4.63	0.01
14-Apr-33	4.68	0.01
15-May-34	4.73	0.01
15-May-41	5.00	-0.00
15-May-51	5.00	-0.01

NZ BKBM and Swap Yields

	Last	Chg
BKBM 1-mth	5.59	0.01
BKBM 3-mth	5.66	0.00
1 year	5.36	0.01
2 year	4.81	0.02
3 year	4.55	0.04
5 year	4.39	0.06
7 year	4.42	0.05
10 year	4.52	0.05
15 year	4.68	0.05

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

Rates are as of: NZT 06:54

Source: Bloomberg

NZD exchange rates

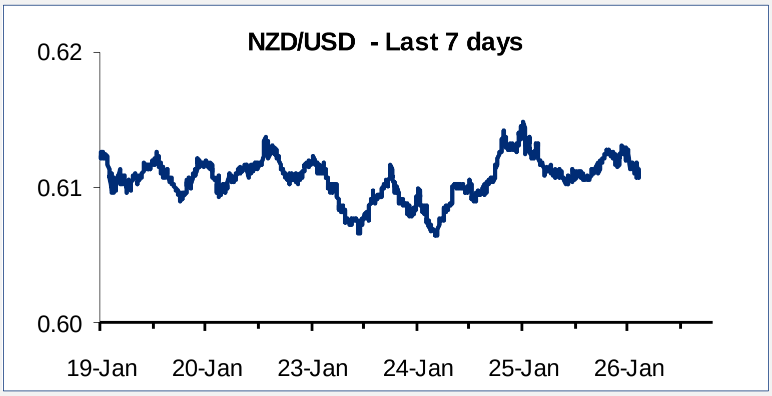
26/01/2024	6:54 am	Prev. NY close
USD	0.6113	0.6111
GBP	0.4819	0.4802
AUD	0.9297	0.9291
EUR	0.5641	0.5614
JPY	90.39	90.14
CAD	0.8253	0.8265
CHF	0.5304	0.5273
DKK	4.2050	4.1860
FJD	1.3749	1.3770
HKD	4.7789	4.7777
INR	50.81	50.80
NOK	6.3977	6.3970
PKR	170.95	170.98
PHP	34.57	34.41
PGK	2.2861	2.2794
SEK	6.3903	6.3779
SGD	0.8199	0.8187
CNY	4.3856	4.3743
THB	21.84	21.80
TOP	1.4190	1.4420
VUV	73.90	73.92
WST	1.6565	1.6582
XPF	66.96	66.86
ZAR	11.5685	11.5425

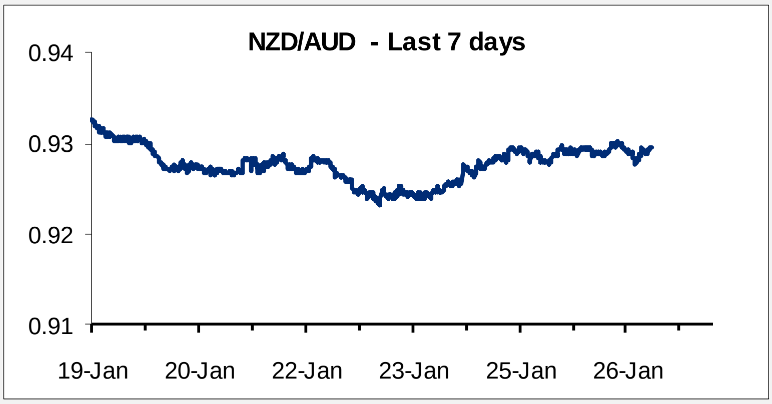
NZD/USD Forward Points

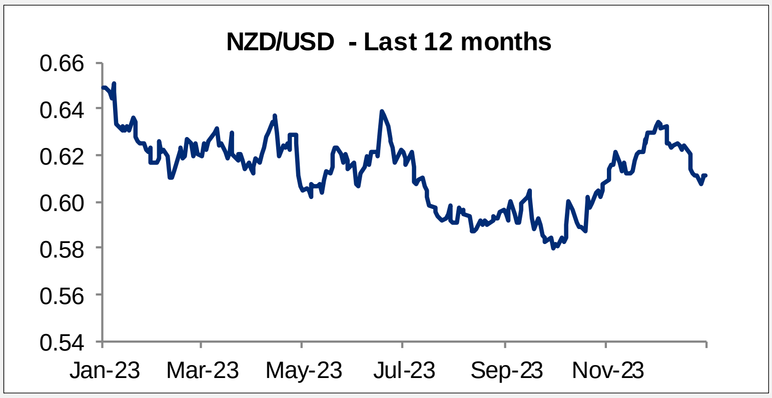
	BNZ buys NZD	BNZ sells NZD
1 Month	-0.13	0.27
3 Months	-0.57	-0.10
6 Months	-4.84	-3.84
9 Months	-11.54	-9.36
1 Year	-18.90	-15.90

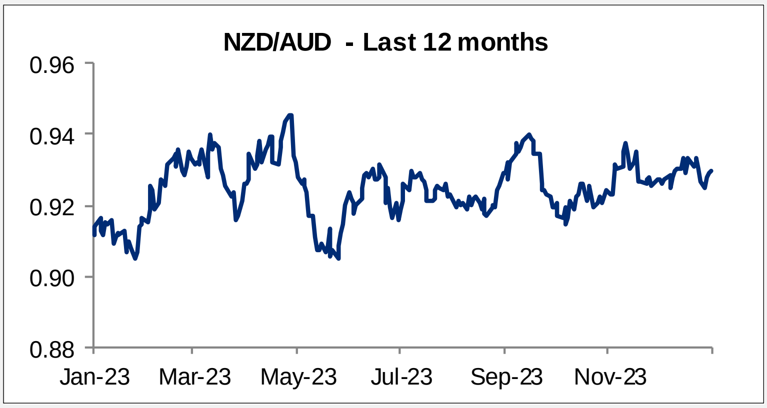
NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-9.15	-8.29
3 Months	-26.62	-25.48
6 Months	-49.74	-46.84
9 Months	-67.15	-61.76
1 Year	-80.31	-72.36









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