

Research Markets Today

29 January 2024

Events Round-Up

JN: Tokyo CPI (y/y%), Jan: 1.6 vs. 2.0 exp.
 JN: Tokyo CPI ex-fr. fd, energy (y/y%), Jan: 3.1 vs. 3.4 exp.
 UK: GfK consumer confidence, Jan: -19 vs. -21 exp.
 GE: GfK consumer confidence, Feb: -29.7 vs. -24.6 exp.
 US: Personal income (m/m%), Dec: 0.3 vs. 0.3 exp.
 US: Real personal spending (m/m%), Dec: 0.5 vs. 0.3 exp.
 US: PCE core deflator (m/m%), Dec: 0.2 vs. 0.2 exp.
 US: PCE core deflator (y/y%), Dec: 2.9 vs. 3.0 exp.
 US: Pending home sales (m/m%), Dec: 8.3 vs. 2.0 exp.

Good Morning

Friday ended on a muted note with an insignificant fall in US equities, a small lift in US Treasury yields and only modest currency moves. That wrapped up a week with only small net moves overall for bonds and currency markets, while there was a bit more action in equity markets, with the S&P500 putting on a third consecutive week of 1+% gains. The NZD finished the week just below 0.61. The week ahead looks more exciting with plenty of event risk to digest.

On Friday, US spending and inflation data were broadly in line with the previous day's Q4 GDP release, with the new information being the monthly breakdown. The core PCE deflator rose 0.2% m/m in December, dragging the annual increase down to 2.9% and leaving the six-month annualised rate at 1.9% for a second consecutive month, just below the Fed's target. Real consumer spending rose a robust 0.5% m/m in December, with November revised up to the same figure, meaning a strong end to the year. This sets up positive base effects for Q1 – flat real personal spending over the next three months would still mean a real annualised increase of 2.1% for Q1.

Economic resilience and on-target inflation sets the scene for an interesting policy debate for the Fed over coming months – with inflation near target, does it bring forward easier policy to start the process of taking policy from restrictive towards neutral, to avoid a possible future hard economic landing, or does it decide that growth is so resilient that there is no need to rush, thereby preferring to wait for further evidence that inflation has fallen on a sustainable basis?

Pricing for the March meeting remained close to an even bet, so even the market is undecided and the next two CPI prints will likely be the deciding factor. The US 10-year Treasury yield closed the week at 4.14%, up 2bps for the day and 4bps higher from the NZ close. The curve flattened, with the 2-year rate up nearly 6bps to 4.35%.

Tokyo CPI data released Friday, a leading indicator of the nationwide figures, missed significantly to the downside – in the order of 0.3-0.4 percentage points – seeing headline inflation fall to 1.6%, a near two-year low, and the core measure (ex-fresh food and energy) fall to 3.1%. This dampened speculation that the BoJ could lift its policy rate out of negative territory as soon as March or April and was yen-negative at the margin, seeing USD/JPY close the week back over 148. However, the minutes of the recent BoJ meeting released hinted at the proximity of rate hikes saying, “it was important for the bank to continue to deepen discussions on issues such as the timing of the exit from the current monetary policy and the appropriate pace of raising policy interest rates thereafter”.

The first public comments from ECB Governing Council members following the policy update were mixed regarding whether the central bank could be easing as soon as April (22bps currently priced). Simkus said he was “open-minded” about April, this being data dependent. Kazaks said “we’re data dependent, we’re not date-dependent”. On the more hawkish side, Muller said it would be reasonable to expect rates to remain on hold for the next several meetings. Vasle said he wants to see the outcome of wage negotiations in the first quarter adding, “my expectations still differ from market expectations”.

There were further comments over the weekend, Villeroy de Galhau wouldn't rule out any date for a rate cut, saying “...not one is excluded, and everything will be open at our next meetings.” Meanwhile Knot tied easier policy to lower wage inflation, saying “when that piece of the puzzle falls into place, we will be able to lower the interest rate a bit”.

Currency moves on Friday and overnight were all contained to plus or minus 0.3% against the USD. As noted, JPY was on the weak side of the ledger, as was the NZD, closing the week just below 0.61. AUD finished the week at 0.6580 and NZD/AUD nudged down to 0.9260.

On Friday, the domestic rates market was quiet, with Australia on holiday and Aucklanders gearing up for a long weekend. Both NZGBs and swaps saw rate falls of 4-6bps, capping off an uneventful week for the swap market. NZGBs saw more action over the course of the week, with larger net falls than seen for swaps, led by the ultra-long end despite Wednesday's announcement of a new 30-year bond soon being syndicated.

The new week kicks off on a quiet note, with Auckland on holiday and only NZ trade data of note on the economic calendar. Highlights for the week ahead include the US FOMC meeting Thursday morning (no change in policy and a data-dependent message likely regarding the timing and scope for easing this year) and non-farm payrolls at the end of the week. Ahead of the Fed's meeting, the employment cost index will be important. The Bank of

England meets and CPI data from Australia, Germany and the euro area are released, as well as China PMIs and Germany and euro area GDP.

On the domestic calendar, watch out for RBNZ Chief Economist Conway speaking tomorrow morning, including a brief comment on recent data, and the ANZ's business outlook survey mid-week.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ Trade balance (ann \$b)	Dec	-13.9	10:45	

Source: Bloomberg, BNZ

Currencies							Equities				Commodities				
Indicative overnight ranges (*)					Other FX		Major Indices				Price (Near futures, except CRB)				
	Last	% Day	Low	High		Last	% Day		Last	% Day	% Year		Last	Net Day	
NZD	0.6093	-0.3	0.6091	0.6120	CHF	0.8642	-0.3	S&P 500	4,891	-0.1	20.5	Oil (Brent)	83.55	+1.4	
AUD	0.6579	-0.2	0.6577	0.6610	SEK	10.447	+0.0	Dow	38,109	+0.2	12.3	Oil (WTI)	78.01	+0.8	
EUR	1.0855	+0.1	1.0813	1.0885	NOK	10.427	-0.1	Nasdaq	15,455	-0.4	34.2	Gold	2017.3	-0.0	
GBP	1.2703	-0.0	1.2676	1.2758	HKD	7.815	-0.0	Stoxx 50	4,635	+1.2	10.9	HRC steel	1077.0	+0.0	
JPY	148.14	+0.3	147.46	148.21	CNY	7.177	+0.0	FTSE	7,635	+1.4	-1.7	CRB	273.6	+0.4	
CAD	1.3452	-0.2			SGD	1.341	+0.1	DAX	16,961	+0.3	12.0	Wheat Chic.	610.8	-1.8	
NZD/AUD	0.9261	-0.2			IDR	15,825	-0.0	CAC 40	7,634	+2.3	7.6	Sugar	23.77	-1.1	
NZD/EUR	0.5613	-0.4			THB	35.66	-0.2	Nikkei	35,751	-1.3	30.6	Cotton	84.37	-1.6	
NZD/GBP	0.4796	-0.3			KRW	1,336	+0.0	Shanghai	2,910	+0.1	-10.9	Coffee	193.9	+3.7	
NZD/JPY	90.25	+0.0			TWD	31.30	-0.0	ASX 200	7,555	+0.5	1.2	W/M powder	3375	+0.0	
NZD/CAD	0.8195	-0.4			PHP	56.32	-0.4	NZX 50	11,875	-0.1	-1.3	Australian Futures			
NZ TWI	71.24	-0.3						VIX Index	13.26	-1.4	-29.2	3 year bond	96.26	0.04	
Interest Rates							NZ Government Bonds				NZ BKBM and Swap Yields				
	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	5.58	4.21	3.77	USD	4.14	0.02	15-May-26	4.59	-0.04	BKBM 1-mth	5.59	0.00		
AUD	4.35	4.35	4.04	4.47	AUD	4.24	0.00	15-Apr-27	4.45	-0.04	BKBM 3-mth	5.66	0.00		
NZD	5.50	5.66	4.76	4.46	NZD	4.68	-0.05	15-May-28	4.39	-0.04	1 year	5.32	-0.04		
EUR	4.00	3.93	2.95	2.68	GER	2.30	0.01	20-Apr-29	4.39	-0.04	2 year	4.76	-0.05		
GBP	5.25	5.33	4.32	3.74	GBP	3.96	-0.02	15-May-30	4.46	-0.05	3 year	4.50	-0.05		
JPY	-0.01	-0.03	0.22	0.90	JPY	0.72	-0.03	15-May-31	4.53	-0.05	5 year	4.34	-0.05		
CAD	5.00	5.41	4.46	3.86	CAD	3.52	0.05	15-May-32	4.58	-0.05	7 year	4.36	-0.05		
							NZ Inflation-Indexed Bonds								
* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer Rates at NY close Source: Bloomberg							Sep-30	2.47	-0.05	15-May-34	4.68	-0.05	10 year	4.46	-0.06
							Sep-35	2.78	-0.05	15-May-41	4.95	-0.06	15 year	4.63	-0.05
							Sep-40	3.02	-0.05	15-May-51	4.94	-0.06			

NZD exchange rates

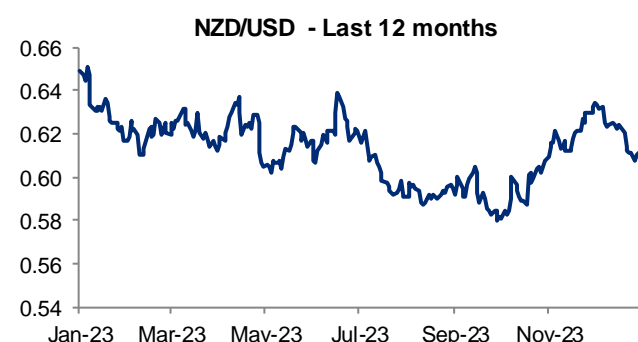
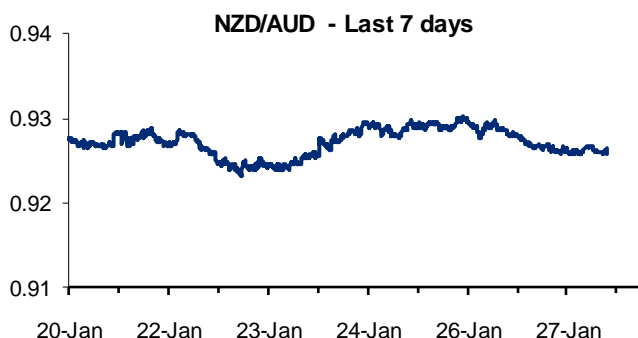
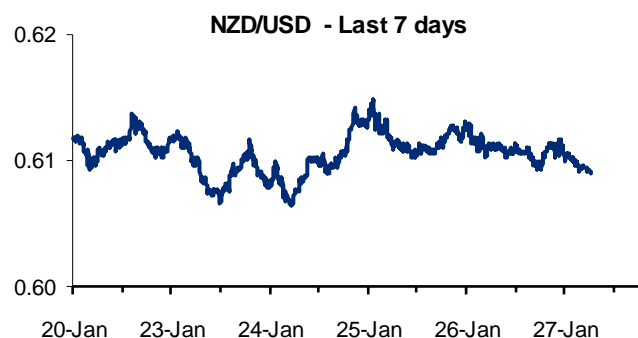
27/01/2024	NY close	Prev. NY close
USD	0.6093	0.6111
GBP	0.4796	0.4809
AUD	0.9261	0.9280
EUR	0.5613	0.5634
JPY	90.25	90.24
CAD	0.8195	0.8235
CHF	0.5263	0.5299
DKK	4.1826	4.2000
FJD	1.3642	1.3816
HKD	4.7590	4.7777
INR	50.62	50.80
NOK	6.3499	6.3777
PKR	170.31	170.98
PHP	34.30	34.56
PGK	2.2792	2.2853
SEK	6.3625	6.3826
SGD	0.8167	0.8190
CNY	4.3710	4.3840
THB	21.70	21.83
TOP	1.4176	1.4231
VUV	72.77	73.88
WST	1.6455	1.6561
XPF	66.80	66.90
ZAR	11.4421	11.5339

NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.16	0.40
3 Months	-0.73	0.30
6 Months	-5.32	-2.58
9 Months	-10.91	-7.11
1 Year	-16.76	-11.88

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-8.84	-7.76
3 Months	-26.43	-24.43
6 Months	-50.52	-44.79
9 Months	-66.94	-58.31
1 Year	-79.14	-67.08



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