

Research Markets Today

29 November 2023

Events Round-Up

AU: Retail sales (m/m%), Oct: -0.2 vs. 0.1 exp.

GE: GfK consumer confidence, Dec: -27.8 vs. -28.2 exp.

US: Conf. Board consumer confid., Nov: 102 vs. 101 exp.

Good Morning

US Treasury yields are lower, led by the short end, the USD is weaker and US equities are higher, following comments by Fed Governor Waller which seemed to support the market narrative that the Fed's tightening cycle was over. The NZD has pushed up to fresh highs, approaching 0.6150.

The focus overnight has been on Fed speakers and respected Governor Waller has helped extend the moves in markets we've seen so far in November. Waller conveyed a policy-on-hold message, saying "I am increasingly confident that policy is currently well positioned to slow the economy and get inflation back to 2%...I am encouraged by what we have learned in the past few weeks – something appears to be giving, and it's the pace of the economy". He didn't seem perturbed by the recent easing in financial conditions, saying that the 10-year rate had fallen 60bps after rising by 100bps so compared to the middle of the year, overall financial conditions are tighter. Those hunting for something hawkish in the speech might refer to the comment "I cannot say for sure whether the FOMC has done enough to achieve price stability". In the Q&A, Waller suggested that if inflation continues to cool for maybe three to five months, the Fed could lower the policy rate.

Other Fed speakers overnight carry less weight, but Governor Bowman remained on the hawkish side of the spectrum, an increasingly lonely position. She expects additional policy tightening will be needed, but more conditional than previously, saying that it depended on data suggesting progress on inflation had stalled, or was insufficient to bring inflation down to 2% in a timely way. At opening remarks at a conference, Chicago Fed President Goolsbee noted that inflation was "not yet" down to target but "on a path to see the highest drop in the inflation rate in 71 years".

Waller's comments were music to the ears of bond investors, and the rally in US Treasuries extended, led by

the short end, the 2-year rate is currently down 12bps on the day to 4.76% and the 10-year rate is down 3bps to 4.35%, or down 5bps relative to the NZ close. Fed Fund futures suggest little chance of further tightening and priced in an extra 10bps of easing for next year, taking it to a cumulative 100bps.

The data calendar has remained light and not a factor. US consumer confidence on the Conference Board measure rose for the first time in four months to 102.0 in November, close to expectations, albeit from a downwardly revised 99.1, supported by falling gasoline prices and rising stock prices. The labour market indicator based on the difference between those saying jobs were hard to get and those saying jobs were plentiful, was little changed, although this indicator of labour market pressures has been easing through most of this year.

Of note for Treasuries, JP Morgan's Treasury client survey for the week ended 27 November showed that the most active investors in the US Treasury market are the most bullish they have been in the history of the survey, which dates back to 1991. Some 78% of active clients were long US Treasuries relative to benchmark, up from 56% the previous week, none were short, and the rest were neutral. Suffice to say, the long positioning hasn't inspired these investors to take profits and they seem to be happy to ride the wave for longer.

US equities began the day weaker, but lower US rates have supported the market and the S&P500 is currently up 0.2%, edging closer to July's high, which is now within spitting distance.

Lower US rates and higher risk appetite have driven broad USD weakness, with the DXY index down 0.4%. EUR broke up through 1.10 for the first time since August and GBP broke up through 1.27. USD/JPY has fallen to 147.60. The NZD and AUD have also been well supported, reaching levels not seen since early August, the NZD approaching 0.6150 and the AUD up to 0.6665. Given the weaker USD has been behind the move, NZD cross movements have been modest.

Despite recent USD weakness, speculators increased long positions in the USD, according to CFTC data. We made this point in our weekly currency update on Monday and added that Citigroup's "PAIN" index also suggested very long positioning in the USD. This suggests further potential

material downside USD risk if speculators/investors rebalance towards neutral.

Lower global rates over the previous US session drove NZ rates lower across the board yesterday, led by the swaps curve, where rates were down 11-12bps. This spilled over into NZGBs, which were down 6-9bps, the 10-year rate closing the day at 4.95%.

In the day ahead, Australia’s monthly CPI indicator is expected to show weaker headline inflation, but the October number is overweight goods and has low coverage of services, so won’t help much to gauge domestic pressures. German CPI data and US trade and the second release of Q3 GDP data are released.

The domestic focus will be on the RBNZ’s MPS. There is universal agreement that the Bank will leave the OCR unchanged at 5.5% (the last rate hike was in May) and the projections should show a rate track no higher than the previous one in August, given softer activity and inflation

data. The tone should convey a message of the Bank being in a happy place, content that policy is restrictive enough to help bring inflation down, but not wanting to encourage further easing in financial conditions at this stage.

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Coming Up

		Period	Cons.	Prev.	NZT
AU	Monthly CPI indicator (y/y%)	Oct	5.2	5.6	13:30
NZ	RBNZ Official Cash Rate (%)	Nov	5.5	5.5	14:00
EC	Economic confidence	Nov	93.6	93.3	23:00
GE	CPI EU harmonised (m/m%)	Nov	-0.5	-0.2	02:00
GE	CPI EU harmonised (y/y%)	Nov	2.5	3	02:00
US	Advance Goods Trade Balance	Oct	-86.5	-85.8	02:30
US	GDP (ann'lsd q/q%, 2nd est.)	Q3	5.0	4.9	02:30
US	Core PCE def. (ann'lsd, q/q%)	Q3	2.4	2.4	02:30

Source: Bloomberg, BNZ

Indicative overnight ranges (*)					Other FX			Equities				Commodities**		
	Last	% Day	Low	High		Last	% Day	Major Indices			Price			
									Last	% Day	% Year		Last	Net Day
NZD	0.6133	+0.6	0.6080	0.6147	CHF	0.8775	-0.3	S&P 500	4,557	+0.1	15.0	Oil (Brent)	82.09	+2.7
AUD	0.6649	+0.6	0.6597	0.6666	SEK	10.339	-0.8	Dow	35,414	+0.2	4.6	Oil (WTI)	76.93	+2.8
EUR	1.0989	+0.3	1.0935	1.1009	NOK	10.627	-0.1	Nasdaq	14,264	+0.2	29.1	Gold	2042.0	+1.5
GBP	1.2692	+0.5	1.2607	1.2715	HKD	7.797	+0.1	Stoxx 50	4,348	-0.1	10.5	HRC steel	901.0	+0.1
JPY	147.54	-0.8	147.32	148.83	CNY	7.137	-0.2	FTSE	7,455	-0.1	-0.3	CRB	270.5	-0.6
CAD	1.3576	-0.3			SGD	1.332	-0.4	DAX	15,993	+0.2	11.2	Wheat Chic.	568.5	+1.3
NZD/AUD	0.9224	-0.1			IDR	15,436	-0.4	CAC 40	7,250	-0.2	8.8	Sugar	27.03	-0.7
NZD/EUR	0.5581	+0.3			THB	34.76	-0.8	Nikkei	33,408	-0.1	19.2	Cotton	78.79	+0.3
NZD/GBP	0.4832	+0.0			KRW	1,294	-0.8	Shanghai	3,039	+0.2	-3.5	Coffee	172.7	+2.1
NZD/JPY	90.49	-0.2			TWD	31.45	-0.4	ASX 200	7,015	+0.4	-3.3	WM powder	3245	-0.3
NZD/CAD	0.8326	+0.3			PHP	55.42	-0.1	NZX 50	11,237	+0.7	-1.4	Australian Futures		
NZ TWI	71.09	+0.2										3 year bond	95.83	0.06
												10 year bond	95.54	0.02
Interest Rates								NZ Government Bonds				NZ Swap Yields		
	Rates				Benchmark 10 Yr Bonds			Last			Last			
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day								
USD	5.50	5.65	4.61	3.99	USD	4.35	-0.04	15-Apr-25	5.23	-0.06		1 year	5.54	-0.04
AUD	4.35	4.37	4.39	4.76	AUD	4.50	-0.07	15-Apr-27	4.85	-0.09		2 year	5.17	-0.11
NZD	5.50	5.62	5.17	4.80	NZD	4.95	-0.08	15-May-28	4.83	-0.09		5 year	4.74	-0.11
EUR	4.00	3.95	3.41	2.99	GER	2.50	-0.05	15-May-31	4.91	-0.08		7 year	4.73	-0.11
GBP	5.25	5.36	4.76	3.99	GBP	4.17	-0.04	14-Apr-33	4.95	-0.08		10 year	4.80	-0.12
JPY	-0.02	-0.03	0.22	0.97	JPY	0.76	-0.02	15-May-41	5.18	-0.07		15 year	4.90	-0.11
CAD	5.00	5.50	4.69	3.95	CAD	3.60	-0.05	15-May-51	5.12	-0.07				

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

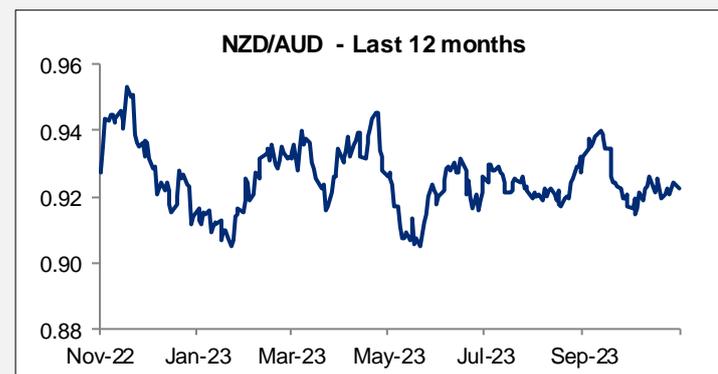
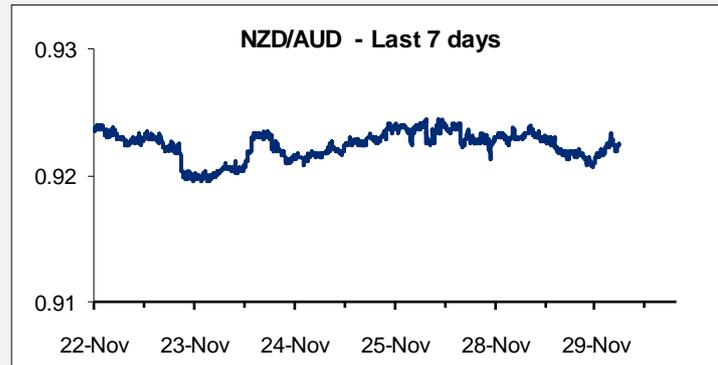
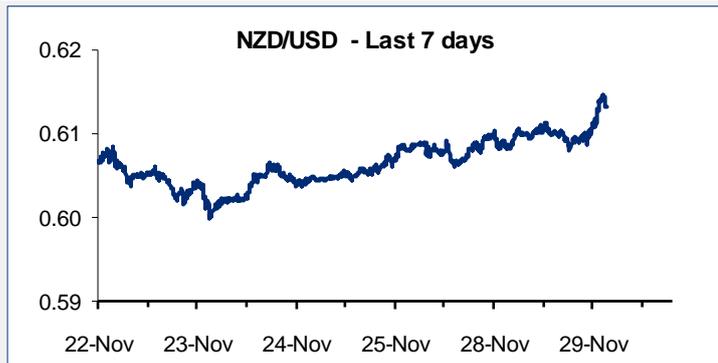
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:56

Source: Bloomberg

NZD exchange rates

29/11/2023 6:56 am		Prev. NY close
USD	0.6133	0.6098
GBP	0.4832	0.4829
AUD	0.9224	0.9230
EUR	0.5581	0.5567
JPY	90.49	90.67
CAD	0.8326	0.8303
CHF	0.5382	0.5368
DKK	4.1611	4.1508
FJD	1.3819	1.3775
HKD	4.7820	4.7511
INR	51.11	50.84
NOK	6.5174	6.4880
PKR	175.14	174.17
PHP	33.99	33.78
PGK	2.2842	2.2711
SEK	6.3411	6.3560
SGD	0.8167	0.8152
CNY	4.3768	4.3618
THB	21.43	21.41
TOP	1.4293	1.4345
VUV	73.84	73.52
WST	1.6769	1.6694
XPF	67.59	67.31
ZAR	11.4079	11.3754



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	0.11	0.42
3 Months	1.05	1.50
6 Months	0.64	1.65
9 Months	-1.70	0.29
1 Year	-5.50	-2.51

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-7.76	-7.16
3 Months	-23.30	-22.19
6 Months	-43.10	-40.25
9 Months	-58.08	-53.17
1 Year	-69.13	-61.78

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