

Research Markets Today

31 May 2024

Events Round-Up

NZ: Dwelling consents (m/m%), Apr: -1.9 vs. xx -0.2 prev.
 AU: Private capex (q/q%), Q1: 1.0 vs. 0.7 exp.
 AU: Building approvals (m/m%), Apr: -0.3 vs. 1.8 exp.
 EA: Economic confidence, May: 96.0 vs. 96.1 exp.
 EA: Unemployment rate (%), Apr: 6.4 vs. 6.5 exp.
 US: GDP (ann'ld q/q%, 2nd est.), Q1: 1.3 vs. 1.3
 US Core PCE defl. (ann'ld q/q%, 2nd est), Q1: 3.6 vs. 3.7 exp.
 US: Initial jobless claims, wk to May-25: 219 vs. 217 exp.
 US: Goods trade balance, Apr: -99.4 vs. -92.4 exp.
 US: Pending home sales (m/m%), Apr: -7.7 vs. -1.0 exp.

Good Morning

US Treasury yields reversed course after their rise this week, encouraged by weaker data releases overnight. The 10-year rate is down 6bps to 4.55% with a slightly flatter curve. The USD also reversed course and is broadly weaker, seeing the NZD recover overnight to 0.6125 after a brief dip below 0.61 just after the NZ close yesterday. Market reaction to the NZ Budget was minimal.

US economic data releases were bond-friendly, consistent with slowing growth and weaker inflation. In its second estimate, US Q1 GDP was revised down from 1.6% to 1.3%, as expected, with private consumption revised down to 2.0% from 2.5%. The core PCE deflator was revised down a tenth to 3.6%. The first estimate of gross domestic income for the quarter showed an annualised increase of just 1.5%.

Separately, the advanced trade good deficit for April showed an unexpected significant increase in the deficit to \$99.4b, which starts Q2 off on a bad note and likely means another contraction in net exports. Pending home sales unexpectedly slumped by 7.7% m/m in April to a four-year low due to the “impact of escalating interest rates through April”, according to the chief economist who compiled the report. Initial jobless claims rose 3k last week to 219k and were slightly above market estimates.

NY Fed President Williams’ speech was broadly in line with previous comments. He said he expects “inflation to resume moderating in the second half” and “the behaviour of the economy over the past year provides ample evidence that monetary policy is restrictive in a way that

helps us achieve our goals”. In the Q&A he said that we don’t know if the neutral policy rate is higher, there is no sign yet of the neutral rate having risen. On near term policy he didn’t feel any urgency to adjust monetary policy and when asked about the chance of a rate hike, he said that it wasn’t his baseline view.

US Treasury yields were heading lower ahead of the data releases, following the market selloff earlier this week, and continued to push lower after the economically softer releases. The 2-year rate is currently down 5bps for the day to 4.92% and the 10-year rate is down 6bps to 4.55%. US equities are modestly lower, with the tech sector leading a sell-off after Salesforce, the largest pure-play provider of cloud-based enterprise software, plunged over 20% after its earnings report.

The USD has followed the path of US rates and is broadly weaker, reversing its gain over the previous day. The NZD fell to a low just below 0.6090 not long after the NZ close yesterday and has recovered to as high as 0.6130 overnight. With the USD in the driving seat, there has been only small movement on the crosses. The AUD has recovered to 0.6640 after a brief dip below 0.66 and NZD/AUD has weakened slightly to 0.9220.

The yen has been one of the strongest majors over the past 24 hours after falling to levels where Japan’s MoF previously intervened in the market, making traders nervous, and helped by lower global rates. USD/JPY has fallen to 156.80 after trading as high as 157.70 yesterday. NZD/JPY is around 96.

It wasn’t a market mover, but the Euro area unemployment rate fell to 6.4%, its lowest level since the formation of the currency bloc. That fact won’t get in the way of the ECB kick starting the easing cycle next week with a 25bps rate cut. EUR is up on broader USD weakness to 1.0840 while NZD/EUR is down slightly to 0.5650.

Yesterday, Finance Minister Willis delivered a no-surprises Budget, capturing the significant deterioration in the fiscal accounts widely acknowledged, and with promised tax relief to households largely offset by cuts to spending. The underlying operating deficit rises from an estimated 2.7% of GDP in FY24 to 3.1% of GDP in FY25, with deficits gradually declining thereafter. Net core crown debt hovers around 43% of GDP over the next few years.

For the market, most interest lay in how the RBNZ would interpret the fiscal projections. The Treasury’s official line

was that based on the total fiscal impulse, in FY25 “fiscal policy’s impact on aggregate demand, and hence inflation, is similar to the previous year”. Our interpretation was less sanguine, and we suggest that there is nothing in the Budget to make the Bank interpret it as dovish, with a real risk that it encourages a push in a more hawkish direction.

The \$12b increase in the government bond programme wasn’t as large as some feared, with a sharp increase in short-term borrowing (skewed to Euro-Commercial Paper) adding to the pool of cash at the government’s disposal, and the quantum for FY25 of \$38b, while \$2b higher than projected in the half-year update, is no higher than the current fiscal year. NZ rates fell slightly after the release, although in the context of the recent aggressive post RBNZ MPS sell-off.

The net movement on the day for NZGBs was minimal, with lower rates following the move higher earlier in the session. The bigger force on the market than the Budget was activity in short-end swaps, with a return of the 5.20% level for the 2-year rate attracting receiving interest and that rate ending down 6bps to 5.14%. The curve was notably steeper, with the 10-year rate down just 1bp to 4.72%.

In the day ahead the economic calendar is full again, with CPI inflation data in Japan (Tokyo specifically) and China PMIs released during NZ trading hours. Tonight, we’ll see

euro area CPI, Canada GDP and US personal spending and PCE deflator data for April. The consensus is evenly split on the core PCE deflator rising by either 0.2% or 0.3% m/m and either of these outcomes shouldn’t perturb the market.

jason.k.wong@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
JN	Tokyo CPI (y/y%)	May	2.2	1.8	11:30
JN	Tokyo CPI ex fr. fd, energy (y/y%)	May	1.8	1.8	11:30
CH	Manufacturing PMI	May	50.5	50.4	13:30
CH	Non-manufacturing PMI	May	51.5	51.2	13:30
EC	CPI (y/y%)	May	2.5	2.4	21:00
EC	CPI core (y/y%)	May	2.7	2.7	21:00
CA	GDP (ann'lsd q/q%)	Q1	2.2	1.0	00:30
US	Personal income (m/m%)	Apr	0.3	0.5	00:30
US	Real personal spending (m/m%)	Apr	0.1	0.5	00:30
US	PCE core deflator (m/m%)	Apr	0.3	0.3	00:30
US	PCE core deflator (y/y%)	Apr	2.8	2.8	00:30
US	Chicago PMI	May	41.1	37.9	01:45

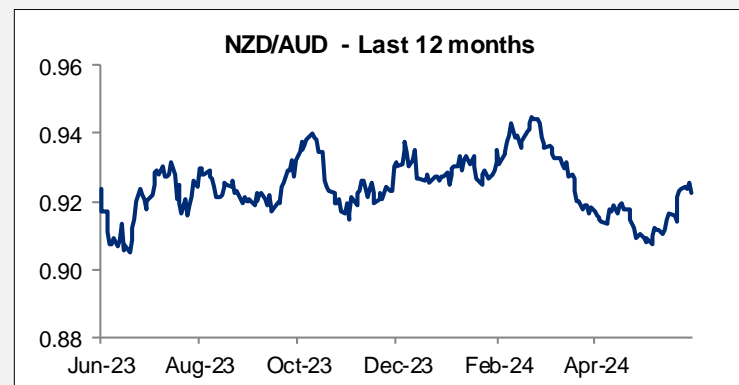
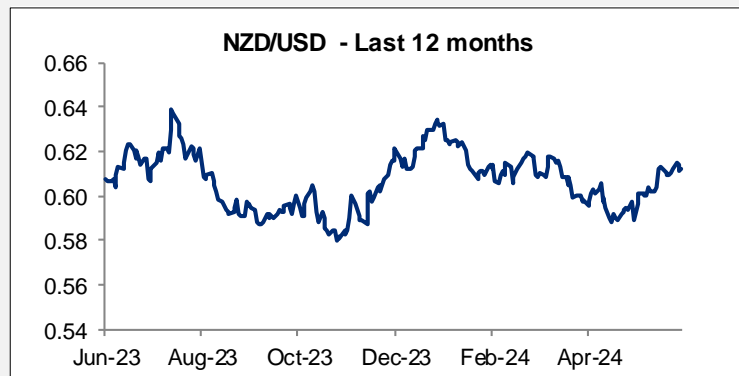
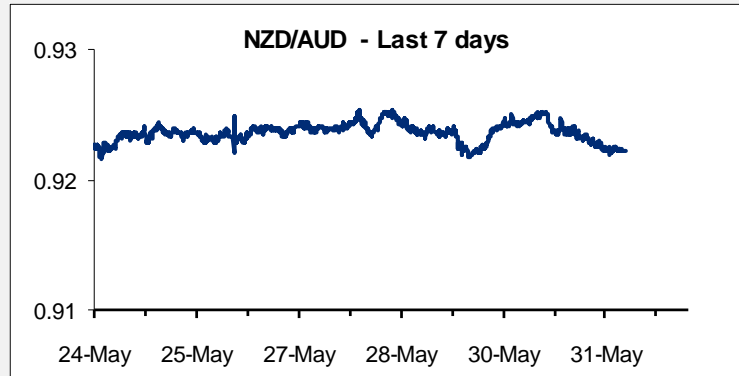
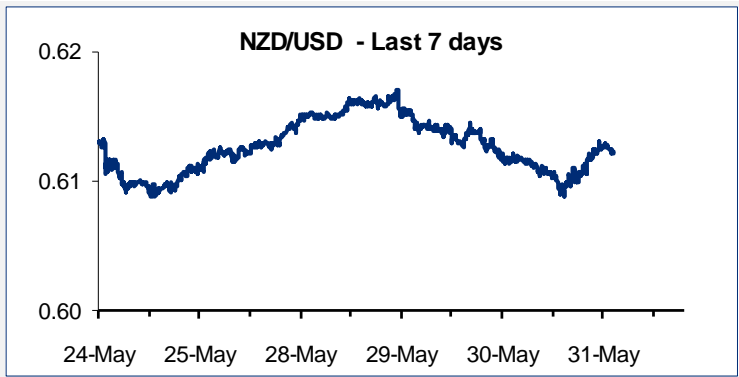
Source: Bloomberg, BNZ

Currencies								Equities				Commodities				
Global froces		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	0.6123	+0.1	0.6095	0.6131	CHF	0.9037	-1.0		S&P 500	5,247	-0.4	24.8	Oil (Brent)	82.03	-1.9	
AUD	0.6639	+0.4	0.6597	0.6648	SEK	10.590	-0.8		Dow	38,126	-0.8	15.4	Oil (WTI)	78.02	-1.5	
EUR	1.0838	+0.3	1.0793	1.0845	NOK	10.533	-0.6		Nasdaq	16,806	-0.7	29.1	Gold	2340.0	-0.1	
GBP	1.2738	+0.3	1.2686	1.2747	HKD	7.817	+0.0		Stoxx 50	4,982	+0.4	16.1	HRC steel	772.0	-0.9	
JPY	156.81	-0.5	156.38	157.11	CNY	7.233	-0.2		FTSE	8,231	+0.6	9.4	CRB	297.6	-0.9	
CAD	1.3672	-0.3			SGD	1.350	-0.2		DAX	18,497	+0.1	16.3	Wheat Chic.	702.0	-1.6	
NZD/AUD	0.9223	-0.3			IDR	16,265	+0.6		CAC 40	7,979	+0.5	10.7	Sugar	18.19	-0.9	
NZD/EUR	0.5650	-0.2			THB	36.70	-0.3		Nikkei	38,054	-1.3	23.2	Cotton	77.76	-3.7	
NZD/GBP	0.4807	-0.2			KRW	1,379	+1.1		Shanghai	3,092	-0.6	-3.5	Coffee	233.0	+1.5	
NZD/JPY	96.01	-0.4			TWD	32.45	+0.4		ASX 200	7,628	-0.5	7.6	WM powder	3260	-0.2	
NZD/CAD	0.8371	-0.2			PHP	58.63	+0.3		NZX 50	11,557	-1.0	-2.2	Australian Futures			
NZ TWI	72.15	-0.1						VIX Index	13.92	-2.5	-20.3	3 year bond	95.92	-0.01		
Interest Rates												10 year bond			95.56	0.02
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	5.61	4.83	4.18	USD	4.55	-0.06	15-May-26	4.95	-0.03	BKBM 1-mth	5.60	0.00			
AUD	4.35	4.35	4.28	4.59	AUD	4.43	0.04	15-Apr-27	4.80	-0.02	BKBM 3-mth	5.63	0.00			
NZD	5.50	5.63	5.14	4.72	NZD	4.89	0.00	15-May-28	4.74	-0.01	1 year	5.51	-0.04			
EUR	4.00	3.79	3.38	2.88	GER	2.65	-0.04	20-Apr-29	4.70	-0.00	2 year	5.14	-0.06			
GBP	5.25	5.30	4.76	4.05	GBP	4.35	-0.05	15-May-30	4.71	-0.00	3 year	4.88	-0.05			
JPY	0.08	-0.03	0.45	1.08	JPY	1.06	-0.02	15-May-31	4.76	0.00	5 year	4.68	-0.04			
CAD	5.00	5.22	4.57	4.00	CAD	3.70	-0.06	15-May-32	4.81	0.00	7 year	4.66	-0.02			
								NZ Inflation-Indexed Bonds				10 year			4.72	-0.01
								Sep-30				2.37	-0.02	15 year	4.85	-0.01
								Sep-35				2.69	-0.02			
								Sep-40				2.88	-0.02			

* These are indicative r 06:55
 please confirm rates with your BNZ dealer
 Rates are as of: NZT
 Source: Bloomberg

NZD exchange rates

31/05/2024 6:55 am		Prev. NY close
USD	0.6123	0.6115
GBP	0.4807	0.4815
AUD	0.9223	0.9251
EUR	0.5650	0.5662
JPY	96.01	96.40
CAD	0.8371	0.8389
CHF	0.5533	0.5584
DKK	4.2137	4.2235
FJD	1.3819	1.3822
HKD	4.7863	4.7781
INR	51.01	50.96
NOK	6.4494	6.4771
PKR	170.40	168.87
PHP	35.91	35.73
PGK	2.3469	2.3366
SEK	6.4840	6.5257
SGD	0.8264	0.8269
CNY	4.4286	4.4329
THB	22.53	22.47
TOP	1.4177	1.4334
VUV	73.59	73.53
WST	1.6601	1.6555
XPF	67.52	67.55
ZAR	11.4541	11.2495



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	-0.10	0.11
3 Months	-0.45	-0.02
6 Months	-2.18	-1.18
9 Months	-4.59	-2.58
1 Year	-6.63	-3.63

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-8.57	-8.03
3 Months	-24.39	-23.37
6 Months	-46.52	-43.74
9 Months	-65.13	-60.30
1 Year	-80.31	-72.71

Contact Details

BNZ Research

Stephen Toplis

Head of Research
+64 4 474 6905

Doug Steel

Senior Economist
+64 4 474 6923

Jason Wong

Senior Markets Strategist
+64 4 924 7652

Stuart Ritson

Senior Interest Rate Strategist
+64 9 9248601

Mike Jones

BNZ Chief Economist
+64 9-956 0795

Main Offices

Wellington

Level 2, BNZ Place
1 Whitmore Street
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

Auckland

80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

Christchurch

111 Cashel Street
Christchurch 8011
New Zealand
Toll Free: 0800 854 854

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