

Research Markets Today

4 September 2023

Events Round-Up

NZ: ANZ consumer confidence, Aug: 85.0 vs. 83.7 prev.
 AU: Home loans value (m/m%), Jul -1.2 vs. 0.0 exp.
 CH: Caixin PMI manufacturing, Aug: 51.0 vs. 49.0 exp.
 CA: GDP (q/q% annual), Q2: -0.2 vs. 1.2 exp.
 US: Change in nonfarm payrolls (k), Aug: 187 vs. 170 exp.
 US: Unemployment rate (%), Aug: 3.8 vs. 3.5 exp.
 US: Average hrly earnings (m/m%), Aug: 0.2 vs. 0.3 exp.
 US: Average hrly earnings (y/y%), Aug: 4.3 vs. 4.3 exp.
 US: ISM manufacturing, Aug: 47.6 vs. 47.0 exp.

Good Morning

The US labour market report provided further evidence the economy is on track for a 'soft landing' with solid monthly payrolls growth in conjunction with an increased supply of workers as the participation rate picks up. After an initial period of volatility, US treasury yields moved higher lending support to the US Dollar. The S&P closed up 0.2% as earlier gains faded but still ended the week 2.5% higher.

US non-farm payrolls gained 187k in August, which was marginally above consensus, but the previous 2 months were revised lower by a total 110k. The softening payrolls trend remains in place though August represents a pickup from the downwardly revised readings for June and July and points to solid labour demand. The unemployment rate unexpectedly increased to 3.8%, which is the highest level since February 2022, as labour force participation picked up to 62.8%. Average hourly earnings rose 0.2% m/m, below the consensus and increased 4.3% on an annual basis.

The ISM manufacturing index rose to 47.6 from 46.4 in August, close to consensus estimates of 47.0. The headline index has been stable at depressed levels during 2023 as the sector is impacted by higher interest rates and a slow economic recovery in China. The ISM subcomponents remained below 50, with new orders falling slightly while employment and prices paid both increased.

Market pricing for upcoming Fed meetings was little changed following the data with a pause expected in September and a cumulative ~10bp of hikes priced over the next two meetings. Fed Bank of Cleveland President

Loretta Mester said inflation remains too high and the labour market is still strong, but these comments didn't impact near-term fed funds pricing.

US treasury yields fell immediately after the release of the jobs data, but this move proved to be short-lived and the market quickly reversed course. 2-year treasury yields extended to an intra-day low of 4.75% before reversing to end up 2bp at 4.88%. 10-year treasury yields increased 7bp to 4.18% with the curve bear steepening. Some of the market moves may be hedging flows related to the expected pickup in corporate issuance after the Labor Day holiday. European bond markets took direction from treasuries with 10-year bunds closing up 9bps at 2.54%

Price action in currency markets mirrored the moves in bond yields. After a brief dip, the US Dollar rebounded strongly with the Dollar Index gaining 0.6% and moving back towards the August highs. EUR/USD slipped more than a big figure from the intra-day highs near 1.0880 to close the week near 1.0780. The Canadian Dollar was among the weakest G10 currencies following a surprise contraction in Q2 GDP ahead of the Bank of Canada's policy meeting this week.

NZD/USD initially spiked from 0.5970 to above 0.6100 following the US data but reversed course in line with the recovery in the US Dollar. The kiwi settled near 0.5940 into the weekly close. The NZD outperformed on the European cross rates and was stable against the AUD.

The PBOC announced further measures Friday aimed at supporting the Yuan. It cut foreign exchange reserve requirement for banks effectively increasing the US Dollar supply onshore in China. This represents further signalling, alongside the series of strong daily fixes, that the PBOC wants to maintain confidence in the currency. Foreign investors sold a record \$12bn worth of Chinese stocks in August. The yuan gained initially on the news before pulling back.

In commodity markets, Brent crude gained 2%, to \$88.50 a barrel, after Russia signalled support for further supply cuts. Crude oil prices advanced more than 7% on last week to the highest level since November as supplies remain tight.

Yields across NZ government bonds moved lower in the local session on Friday with the long end outperforming

leading to a flatter yield curve with similar moves in swaps. 10-year bonds ended the day down 4bp at 4.84%. Australian 3-year bond futures were little changed and 10-year bond futures are close to 5bps higher in yield from the local close on Friday suggesting an upward bias for NZ yields to start the week.

There is limited economic data today and the Labor Day holiday in the US.

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Coming Up

		Period Cons.	Prev.	NZT
NZ	Terms of Trade Index QoQ	2Q	-1.5	10:45

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	0.5945	-0.4	0.5935	0.6015	CHF	0.8851	+0.2	S&P 500	4,516	+0.2	15.1	Oil (Brent)	88.55	+2.0		
AUD	0.6450	-0.4	0.6439	0.6522	SEK	11.040	+0.8	Dow	34,838	+0.3	11.2	Oil (WTI)	85.55	+2.3		
EUR	1.0776	-0.6	1.0772	1.0882	NOK	10.661	+0.3	Nasdaq	14,032	-0.0	20.6	Gold	1948.4	+0.1		
GBP	1.2589	-0.7	1.2578	1.2713	HKD	7.844	+0.0	Stoxx 50	4,283	-0.3	20.8	HRC steel	720.0	-1.2		
JPY	146.23	+0.5	144.45	146.29	CNY	7.266	+0.1	FTSE	7,465	+0.3	2.5	CRB	284.4	+0.9		
CAD	1.3593	+0.6			SGD	1.353	+0.1	DAX	15,840	-0.7	21.4	Wheat Chic.	595.5	-1.1		
NZD/AUD	0.9217	+0.1			IDR	15,242	+0.1	CAC 40	7,297	-0.3	18.3	Sugar	25.81	+3.0		
NZD/EUR	0.5517	+0.2			THB	35.09	+0.2	Nikkei	32,711	+0.3	18.3	Cotton	89.61	+1.7		
NZD/GBP	0.4722	+0.3			KRW	1,319	-0.3	Shanghai	3,133	+0.4	-1.7	Coffee	151.9	-1.7		
NZD/JPY	86.92	+0.1			TWD	31.84	-0.1	ASX 200	7,278	-0.4	6.6	WM powder	2535	+0.4		
NZD/CAD	0.8080	+0.3			PHP	56.55	-0.1	NZX 50	11,529	-0.2	-0.9	Australian Futures				
NZ TWI	69.82	-0.1										3 year bond	96.28	0.01		
												10 year bond	95.97	-0.03		
Interest Rates																
	Rates				Swap Yields			Benchmark 10 Yr Bonds			NZ Government Bonds			NZ Swap Yields		
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day		Last				Last			
USD	5.50	5.66	4.77	3.89	USD	4.18	0.07	15-Apr-25	5.43	-0.02		1 year	5.73	-0.00		
AUD	4.10	4.13	4.11	4.43	AUD	4.00	-0.02	15-Apr-27	4.97	-0.02		2 year	5.43	-0.01		
NZD	5.50	5.65	5.43	4.67	NZD	4.83	-0.04	15-May-28	4.86	-0.03		5 year	4.82	-0.00		
EUR	3.75	3.80	3.64	3.12	GER	2.55	0.08	15-May-31	4.83	-0.04		7 year	4.71	-0.02		
GBP	5.25	5.58	5.48	4.36	GBP	4.43	0.07	14-Apr-33	4.83	-0.04		10 year	4.67	-0.04		
JPY	-0.06	-0.03	0.13	0.81	JPY	0.63	-0.02	15-May-41	5.01	-0.05		15 year	4.73	-0.04		
CAD	5.00	5.50	5.10	4.07	CAD	3.56	-0.00	15-May-51	5.00	-0.05						

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

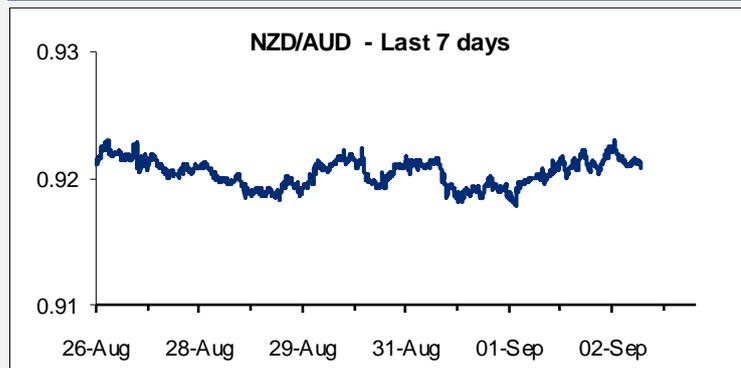
** All near futures contracts, except CRB. Metals prices are CME.

Rates at NY close

Source: Bloomberg

NZD exchange rates

2/09/2023	NY close	Prev. NY close
USD	0.5945	0.5967
GBP	0.4722	0.4708
AUD	0.9217	0.9203
EUR	0.5517	0.5503
JPY	86.92	86.84
CAD	0.8080	0.8060
CHF	0.5262	0.5271
DKK	4.1097	4.1011
FJD	1.3462	1.3564
HKD	4.6634	4.6792
INR	49.18	49.40
NOK	6.3380	6.3438
PKR	181.60	182.37
PHP	33.65	33.86
PGK	2.1470	2.1464
SEK	6.5632	6.5359
SGD	0.8042	0.8063
CNY	4.3198	4.3313
THB	20.81	20.88
TOP	1.3864	1.3838
VUV	72.00	72.79
WST	1.6303	1.6464
XPF	65.63	65.37
ZAR	11.2015	11.2632



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	0.04	0.66
3 Months	0.29	1.61
6 Months	-0.16	2.37
9 Months	-3.22	-0.03
1 Year	-8.31	-3.71



NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-10.23	-8.98
3 Months	-29.56	-26.97
6 Months	-59.68	-54.23
9 Months	-88.66	-81.64
1 Year	-114.58	-103.23



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