

Research Markets Today

5 October 2023

Events Round-Up

NZ: RBNZ official cash rate (%), Oct 5.5 vs. 5.5 exp.

US: ADP employment change (k), Sep: 89 vs. 150 exp.

US: ISM services index, Sep: 53.6 vs. 53.5 exp.

Good Morning

US Treasury yields pulled back from 16-year highs reached in early European trade in a move supported by softer than expected US labour market data. The retracement provided some respite for investor risk sentiment which was under pressure from the relentless move higher in real yields in recent days. US equities recovered off the lows and the US Dollar weakened. Oil fell to the lowest level since early September with Brent crude prices close to US\$10 below the recent \$97.50 peak.

The ADP estimate of US private non-farm payrolls increased 89k for September. This was below consensus estimates of 150k and was the weakest pace since the start of 2021. However, this series has not been a reliable indicator of the official payroll numbers which are released early Saturday morning (NZT) and are expected to show monthly job gains of 168k.

The September ISM services index dropped slightly to 53.6 from 54.5 which was in line with consensus estimates. The prices paid and employment sub-indices were little changed from the previous month. However, new orders fell sharply from 57.5 to 51.8 which is the lowest level for the year. The headline services ISM index has had some large swings in recent months but overall is only marginally lower since the start of 2023 compared with the more pronounced trend lower – and more recent recovery - in the manufacturing sector ISM.

Global bond markets continued to sell off early European trade with yields reaching new highs for the cycle. Notably 30-year US treasuries traded briefly above 5.0% before the market reversed course. Having peaked at 4.88%, US 10-year yields retraced more than 10bps with real money buying noted and likely related to the attractive yield levels and pace of the recent move. The weaker ADP jobs data and lower oil prices also contributed to improved market sentiment. Short maturity treasuries outperformed extending the recent 2y/10y curve steepening trend.

The Bank of Japan (BOJ) undertook purchases of Japanese government bonds in a smoothing operation to slow the upward move in yields. The operation was well-oversubscribed despite larger volumes relative to bond purchases in late September. 10-year yields closed up 4bp at 0.80%. Separately, 10-year JPY interest rate swaps reached 1% matching the BOJ's effective yield cap.

Japanese policy makers refused to comment on the Yen's rapid appreciation early yesterday morning (NZT) where USD/JPY dropped from above 150 to 147.50 in a matter of seconds before staging a recovery. Japan's top currency official, Masato Kanda wouldn't confirm if there had been intervention to support the Yen. After the sudden bout the volatility, the market will be cautious particularly if USD/JPY moves back above 150.

The US Dollar pulled back from 11-month highs in offshore trade with the dollar index falling nearly 0.5% in a broad-based move amid the reversal in global bond yields. The Canadian dollar and Norwegian Krone underperformed within G10 currencies as oil prices had the largest intra-day fall since June. The NZD rebounded above 0.5900 after slipping to a weekly low near 0.5870 following the RBNZ's monetary policy decision. The NZD/USD move higher aligned with the generally weaker US Dollar. NZD/AUD was stable overnight near 0.9340.

The RBNZ left the Official Cash Rate unchanged at 5.5% at the Monetary Policy Review yesterday. The accompanying statement suggested there is little change in the Bank's assessment from the August Monetary Policy Statement. While noting 'interest rates are constraining economic activity and reducing inflationary pressure as required', there was a suggestion, at the margin, that rates may need to stay elevated for longer than it had previously forecast.

NZ fixed interest markets continued to move higher in yield and steepen aggressively in the local session yesterday aligned with moves in offshore markets. The on-hold RBNZ contributed to the outperformance in the front end. 10-year government bonds increased 11bp to 5.54% while the 2y/10y curve steepened to -25bp up from -49bp a week ago. Australian 3-year bond futures are about 7bp lower in yield since the local close yesterday while 10-year yields are down close to 10bps suggesting a bias for lower NZGB yields on the open.

New Zealand Debt Management is tendering NZ\$500 million of nominal NZGBs today split across 15 May 2028 (\$225m), 15 April 2033 (\$225m) and 15 April 2041 (\$50m).

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Coming Up

		Period	Cons.	Prev.	NZT
AU	Trade Balance	Aug	8700	8039	13:30
US	Trade Balance	Aug	-59.9	-65.0	01:30
US	Initial Jobless Claims	Sep 30	210	204	01:30

Source: Bloomberg, BNZ

It is a quiet day ahead in from a data perspective. US weekly jobless claims are released overnight.

Indicative overnight ranges (*)								Other FX		Equities				Commodities**		
	Last	% Day	Low	High		Last	% Day	Major Indices			Price					
									Last	% Day	% Year		Last	Net Day		
NZD	0.5908	-0.0	0.5881	0.5925	CHF	0.9168	-0.4	S&P 500	4,244	+0.3	11.9	Oil (Brent)	86.57	-4.8		
AUD	0.6320	+0.3	0.6302	0.6343	SEK	11.076	-0.1	Dow	32,981	-0.0	8.8	Oil (WTI)	84.93	-4.8		
EUR	1.0503	+0.4	1.0451	1.0532	NOK	11.006	+0.4	Nasdaq	13,157	+0.7	17.7	Gold	1822.7	-0.1		
GBP	1.2137	+0.5	1.2037	1.2177	HKD	7.829	-0.0	Stoxx 50	4,100	+0.1	17.7	HRC steel	700.0	+2.0		
JPY	149.03	+0.0	148.74	149.27	CNY	7.298	-0.2	FTSE	7,412	-0.8	4.6	CRB	281.5	-0.4		
CAD	1.3750	+0.3			SGD	1.372	-0.1	DAX	15,100	+0.1	19.2	Wheat Chic.	589.3	-1.4		
NZD/AUD	0.9348	-0.3			IDR	15,634	+0.3	CAC 40	6,997	-0.0	15.8	Sugar	25.93	+1.1		
NZD/EUR	0.5625	-0.4			THB	36.94	-0.3	Nikkei	30,527	-2.3	12.6	Cotton	87.14	-0.4		
NZD/GBP	0.4868	-0.5			KRW	1,364	+0.2	Shanghai	3,110	+0.1	2.3	Coffee	146.2	-1.7		
NZD/JPY	88.05	-0.0			TWD	32.36	+0.1	ASX 200	6,890	-0.8	1.1	WM powder	3050	+1.7		
NZD/CAD	0.8124	+0.3			PHP	56.71	-0.2	NZX 50	11,235	-0.0	0.5	Australian Futures				
NZ TWI	70.43	-0.1										3 year bond	95.86	-0.04		
Interest Rates											10 year bond			95.42	0.08	
	Rates				Swap Yields		Benchmark 10 Yr Bonds		NZ Government Bonds			NZ Swap Yields				
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day	Last	Net Day	Last	Net Day	Last	Net Day	Last	Net Day		
USD	5.50	5.68	4.97	4.44	USD	4.74	-0.05	15-Apr-25	5.79	-0.02	1 year	5.94	-0.02			
AUD	4.10	4.14	4.30	4.84	AUD	4.66	0.12	15-Apr-27	5.51	0.04	2 year	5.78	-0.00			
NZD	5.50	5.72	5.78	5.37	NZD	5.54	0.12	15-May-28	5.45	0.08	5 year	5.39	0.07			
EUR	4.00	3.96	3.80	3.48	GER	2.92	-0.05	15-May-31	5.50	0.10	7 year	5.35	0.09			
GBP	5.25	5.41	5.18	4.47	GBP	4.58	-0.02	14-Apr-33	5.54	0.12	10 year	5.37	0.10			
JPY	-0.02	-0.03	0.22	1.01	JPY	0.81	0.04	15-May-41	5.77	0.13	15 year	5.44	0.11			
CAD	5.00	5.53	5.39	4.62	CAD	4.16	-0.09	15-May-51	5.76	0.13						

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

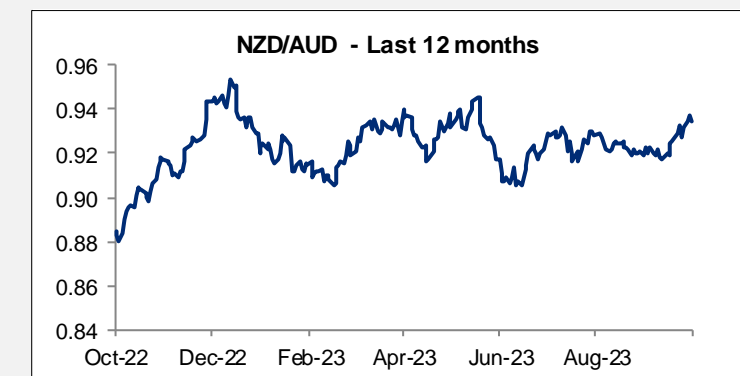
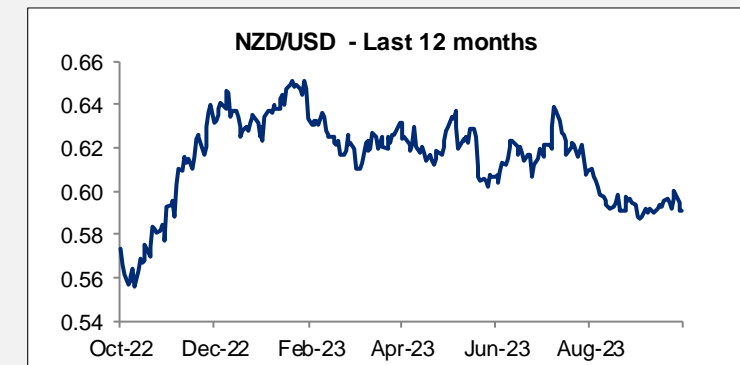
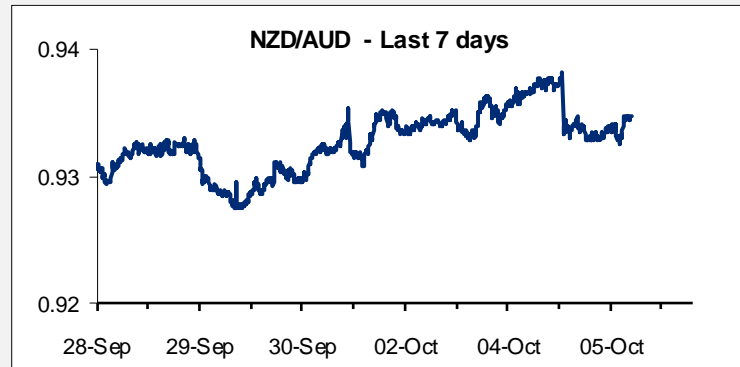
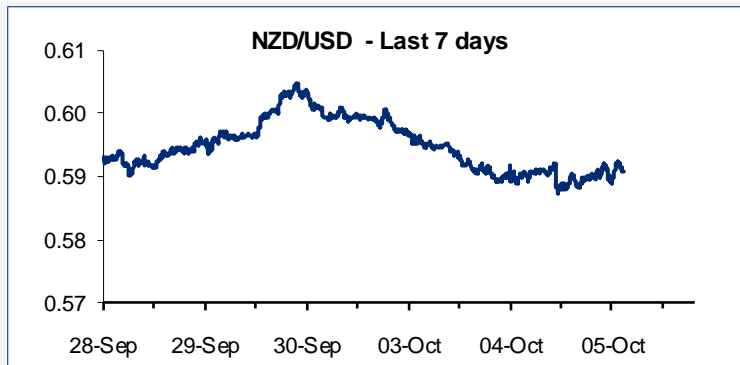
** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:42

Source: Bloomberg

NZD exchange rates

4/10/2023	6:42 am	Prev. NY close
USD	0.5908	0.5909
GBP	0.4868	0.4893
AUD	0.9348	0.9376
EUR	0.5625	0.5645
JPY	88.05	88.06
CAD	0.8124	0.8100
CHF	0.5416	0.5442
DKK	4.1947	4.2106
FJD	1.3501	1.3612
HKD	4.6254	4.6280
INR	49.18	49.17
NOK	6.5025	6.4799
PKR	168.16	168.84
PHP	33.50	33.56
PGK	2.1641	2.1645
SEK	6.5435	6.5482
SGD	0.8105	0.8114
CNY	4.3117	4.3205
THB	21.90	21.89
TOP	1.4017	1.3956
VUV	72.91	72.62
WST	1.6441	1.6410
XPF	66.97	67.10
ZAR	11.4335	11.4321



NZD/USD Forward Points

	BNZ buys NZD	BNZ sells NZD
1 Month	0.13	0.47
3 Months	0.66	1.16
6 Months	-0.23	1.26
9 Months	-6.39	-1.87
1 Year	-14.10	-10.11

NZD/AUD Forward points

	BNZ buys NZD	BNZ Sells NZD
1 Month	-10.64	-9.79
3 Months	-32.53	-31.15
6 Months	-61.74	-57.94
9 Months	-93.52	-83.56
1 Year	-123.10	-112.37

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