Daily Alert
New Zealand Edition

1 December 2023

ASB

Too much, too soon

Of late, pressure to lower global yields has been intense, with markets viewing that if central banks are no longer hiking, they are due to start cutting soon. Lower inflation readings have been reassuring, the activity data is starting to roll over (see below), with forward indicators pointing to a pending slowdown (Q4 GDPnow estimates for the US are down to around a 2% annualised rate). The risk is that this is too much, too soon. It is questionable how much scope there is for NZ yields to move lower, with about 65bps of OCR cuts priced in by the end of next year, but the RBNZ is clearly frustrated with how long it is taking to drive NZ inflation below 3% (2½ years and counting).

Language from central bankers remained resolute, warning that restrictive monetary policy settings would be required for a while yet to drive inflation lower. FOMC Vice Chair Williams noted that US rate settings were currently the most restrictive in 25 years and that a restrictive stance will be needed “for quite some time” to bring back 2% inflation on a sustained basis. Moreover, should pricing pressures prove to be more persistent “additional policy firming may be needed”. ECB hawk Nagel warned that upside risk to the Eurozone’s inflation outlook dominated and that another rate hike can’t be ruled out with it being far too early to think about rate cuts.

Global yields have pushed higher, with curves steepening. US Treasury yields have climbed 5-8bps, with 2-year yields rising from 5-month lows (4.70%), and 10-year yields up from 2-month lows (4.34%). About 10bps was taken out of Fed rate cut pricing, but this still looks aggressive with more than 100bps of cuts priced in for 2024. European yields are higher and curves steeper (Ger10Y 2.44%, UK10Y 4.17%). NZ yields followed global counterparts lower (2Y 5.16%, 10Y 4.74%), with government bond yields also down. There was solid demand for yesterday’s $500m tender of the 2030, 2032, and 2051 government bonds with about 3.0 times coverage and yields below mid-market levels in a 4.78% to 5.06% range. Australian yields also drifted lower yesterday.

The global rally in stocks has struggled to continue, with the S&P500 little changed from its previous open, about 5% below record highs. Technology stocks were down, ahead of the market launch of the Cybertruck by Tesla. Eurozone equity indices closed 0.3% to 0.6% higher, with Asia-Pacific indices generally in the black. **Despite OPEC+ agreeing to a new 1 million barrel per day cut in supply, oil prices were down given scepticism that these cuts would be adhered to.** Prices for WTI and Brent were down more than 1 USD per barrel, trading at around USD76.50 and USD81.50 respectively. Other commodity prices were generally higher despite the rising USD.

Data provided encouragement that restrictive US monetary settings are doing the job and are likely to encourage an on-hold stance by the Fed later this month. US PCE inflation prints eased to 3.0% yoy for headline and 3.5% yoy for both core measures in October (mkt: headline 3.1% yoy, core 3.5% yoy). Core price inflation slowed to a 2.5% annual rate in the last 6 months. Personal spending rose 0.2%, the slowest increase since May, with incomes up 0.2% mom. Strength in the US labour market looks to be waning. US initial jobless claims ticked up in line with market expectations to 218k, with continuing claims at 1927k, their highest level since June 2021. Pending home sales were down 1.5% in the month.

November CPI data for the Eurozone surprised to the downside for both headline (2.4% yoy versus mkt: 2.7% yoy) and core CPI (3.6% yoy versus 3.9% yoy) measures. The Eurozone unemployment rate was steady at 6.5%. Manufacturing (49.4) and non-manufacturing (50.2) PMIs for China were weaker than expected, suggesting softening economic momentum heading into 2024. The Q3 Australian Capex survey was solid in Q3 (+0.6% qoq), with upward revisions in Q2 figures and with the outlook for capex over 2023/24 revised up. This data could lift overall GDP. Private sector growth slowed in Australia (+0.3% mom, 4.8% yoy), despite the stronger than expected rebound in building approvals (7.5% mom), although housing credit was steady at 0.4%, 4.2% yoy.

The ANZ NZ Business Outlook confirmed the continued lift in NZ business sentiment with widespread improvements in activity metrics (own activity 26,1, investment intentions 4.5, rising construction intentions), but with pricing indicators mixed (pricing intentions 46.8, inflation expectations 4.79%), that will frustrate the RBNZ, who are keen to get inflation down. NZ residential consents rebounded 8.7% in October, with the number of consents easing to 39,900 in the October year, below the 51,015 May 2022 peak.

FX: The USD index strengthened last night, with general gains against the majors (the European majors were generally the currency laggards). **By virtue of NZ’s high outright yields and more hawkish central bank stance, the NZD has been well supported,** with the kiwi trading in a 0.6120 to 0.6185 USD range overnight. The NZD has edged higher against the AUD last night (currently 0.9320). A yield advantage in favour of the NZD and hopes of a global soft economic landing should provide legs of support to the NZD.

Day ahead: NZ consumer sentiment from the ANZ survey is expected to remain downbeat, weighed by weak assessment of current conditions. Core logic house prices and the final manufacturing PMI (prelim: 47.7) are out for Australia. The Caixin manufacturing PMI (mkt: 49.6) is out today, with the final manufacturing PMI (mktr: 46.7) and nationwide house prices (mkt: -0.4% mom) out for the UK. Manufacturing PMIs are expected to be weak for the Eurozone aggregate (mkt: 43.8), with the manufacturing ISM (mkt: 47.8, prior 46.7) headlining the US data. The FOMC's Barr, Goolsbee and FOMC Chair Powell are due to comment today, with some speeches by ECB members also out (including ECB President Lagarde). Have a good weekend.

Author: mark.smith4@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.6153	-0.2%	NZD/SEK	6.451	1.2%	NZX WMP	3250.0	0.5%	Dow	35704	0.8%
NZD/AUD	0.9317	0.2%	NZD/DKK	4.213	0.7%	Gold $/o	2035.1	-0.4%	S&P 500	4539	-0.2%
NZD/EUR	0.5650	0.7%	NZD/THB	21.7	1.2%	WTI Oil $/b	75.9	-2.5%	NASDAQ	14136	-0.9%
NZD/JPY	91.17	0.5%	AUD/USD	0.6604	-0.3%	**Money Market (%)**			FTSE	7454	0.4%
NZD/GBP	0.4875	0.6%	EUR/USD	1.089	-0.9%	90 Day BB	5.62	0.00	CAC-40	7311	0.6%
NZD/CAD	0.8355	-0.2%	USD/JPY	148.2	0.6%	OCR	5.50	0.00	DAX	16215	0.3%
NZD/CHF	0.5387	0.1%	**10 Yr Bond Yields (%)**			**ASB Swap Rates (%)**			H.Seng	17043	0.3%
NZD/HKD	4.805	-0.1%	NZ	4.88	-0.04	1yr	5.58	0.01	Nikkei	33487	0.5%
NZD/SGD	0.8230	0.2%	US	4.34	0.08	2yr	5.16	-0.04	ASX200	7087	0.7%
NZD/CNH	4.397	0.7%	Aust	4.41	0.05	5yr	4.69	-0.04	NZX50	11330	0.0%

ASB Economics & Research			Phone	Fax
Chief Economist	Nick Tuffley	nick.tuffley@asb.co.nz	(649) 301 5659	(649) 302 0992
Senior Economist	Mark Smith	mark.smith4@asb.co.nz	(649) 301 5657	
Senior Economist, Wealth	Chris Tennent-Brown	chris.tennent-brown@asb.co.nz	(649) 301 5853	
Senior Economist	Kim Mundy	kim.mundy@asb.co.nz		
Economist	Nat Keall	nathaniel.keall@asb.co.nz	(649) 301 5915	
Future Me Graduate	Sara Curry	sara.curry@asb.co.nz		
Administration Manager	Caro Phillips	caro.phillips@asb.co.nz		

https://reports.asb.co.nz/index.html
@ASBMarkets

ASB Economics
ASB North Wharf, 12 Jellicoe Street, Auckland