

No news is good news

Key themes: NZ yields continue to grind lower as markets anticipate RBNZ cuts. NZ yields have moved a long way, with cumulative falls for the 2-year swap yields hitting 65bps for the month. Mortgage interest rates and term deposit rates are being trimmed and the NZD is down. The RBNZ have not commented as yet, which is news in itself. We still view the August OCR decision as being 'live'.

Central Banks update: The Bank of Canada cut its overnight lending rate by 25bps to 4.5%, its 2nd consecutive 25bp cut. **It does not look to be a one and done move**, with BOC Governor Macklem reiterating it would be "reasonable" to expect further rate cuts, but that the bank will be taking decisions "one at a time". According to Macklem, the cut was motivated by 3 key considerations that we think the RBNZ will also be taking into account: "First, monetary policy is working to ease broad price pressures. Second, with the economy in excess supply and slack in the labour market, the economy has more room to grow without creating inflationary pressures. Third, as inflation gets closer to the 2% target, the risk that inflation comes in higher than expected has to be increasingly balanced against the risk that the economy and inflation could be weaker than expected". The policy assessment noted that monetary policy decisions will be guided by incoming information (it's not just the data) and the Bank's assessment of the inflation outlook, with Macklem noting the return to the 2% inflation target is "in sight". Markets were about 88% priced in for a 25bp cut before the meeting, but Canadian short-term yields (2Y bonds down 8bps overnight) and the CAD dropped after the decision.

US politics update: The gloves are off with Vice President Harris, noting she would "proudly put my record" against that of Republican nominee Trump, with Harris setting out a progressive agenda. Mud is also being thrown in the other direction. Fox media is now proposing a September 17 Trump-Harris debate that will be well worth the price of admission if it goes ahead. Other reports suggest that plans are afoot to introduce a rule change that will enable a "virtual roll call" in which Democratic Party delegates will vote in early August to confirm their choice of Presidential Nominee. If successful, Kamala Harris will accept the nomination well before the August 19-22 Democratic National Convention. Her running mate (i.e. candidate for Vice President) has yet to be announced. Time is of the essence given the need to get the new democratic ticket on the ballot in several states with early election deadlines.

Global yield curves have steepened, with lower short-term yields but higher long-term rates. The 2-year US Treasury yield was 4bps lower (4.40%) and briefly troughed early this morning just after the Bank of Canada cut. Also helping to dampen yields were calls from former FOMC Vice Chair William Dudley for Fed rate cuts (a 25bp September Fed cut is close to fully priced). US 10-year Treasury yields were up 2bps to 4.27%. The same dynamic was evident in northern hemisphere bond markets: Canada (2Y -8bps, 10Y flat), Germany (2Y -6bps, 10Y +1bps), the UK (2Y -3bps, 10Y +3bps). NZ swap yields have continued their descent, falling 2-7bps yesterday, with heaviest falls in the 2-3 part of the curve (2Y 4.25%, 3Y 4.00%), with both around 2-year lows. A 25bp cut in August is close to 70% priced in with close to 85bps of rate cuts by year end and close to 200bps of cuts in the next 12 months. NZGB yields have bull steepened, with heavier falls in the 2-year bond (2Y 4.36%, 10Y 4.39%). Australian bond yields were slightly lower (10Y 4.32%).

Equities face a reality check. The S&P500 is down more than 2% at the time of writing, with more than 3% falls for the Nasdaq. The trigger looks to be disappointing earnings results from Alphabet and Tesla. Corporate results from Apple, Microsoft, Amazon and Meta are due next week. European stocks were lower on their open. Softer corporate earnings from Deutsche Bank weighed on European stocks (Euro Stoxx 50 -1.1%, Dax -0.9%), with the FTSE 100 down just 0.1%. Equities have closed lower in the Asia Pacific session. Chinese equities have pared earlier losses, reportedly supported by Chinese sovereign fund buying. The NZX 50 was up by 0.9% supported by lower NZ yields. The ASX 200 fell 0.1%.

Commodity prices were generally lower for metals and agriculture, but energy commodity prices were modestly higher. Oil prices were supported by lower US crude inventories. Near-term contract prices were up about 0.6% for WTI (US\$77.60 per barrel) and Brent (US\$81.60).

Data wrap: July manufacturing and services PMIs remained lopsided in Australia (47.4 and 50.8 respectively), Japan (49.2 and 53.9), the UK (51.8 and 52.4), the Eurozone (45.6 and 51.9), and the US (49.5 and 56). US June new house sales undershot expectations, falling 0.6%, to 617k their lowest level for 2024.

FX: The unwinding of the carry trade looks to have supported the yen, which was the strongest G10 currency for the second day running. USD/JPY eased to 154.6 yesterday afternoon and fell to as low as 153.1 last night (currently 154.0). The USD index troughed early this morning but has made up much of these losses in the last few hours to be towards the top of the G10 ladder. The NZD and AUD were the weakest of the G10. The NZD has gained 20 pips against the AUD last night and is currently trading at 0.9010 AUD. The NZD eased against the USD for much of yesterday, troughing at 0.5915 USD before edging higher and trading in a 0.5925 to 0.5955 USD overnight range. **Lower NZ yields and the expectations that the RBNZ could be cutting the OCR in the next few months have removed a key leg of NZD support.**

Day ahead: No major releases are scheduled for NZ. NZDM is set to tender \$500m of the 2029 and 2035 lines, with solid demand expected and yields to come in about 2bps below mid-market levels. There are no major data releases across the Tasman. Preliminary Q2 US GDP readings (mkt: 2.0% qoq annualised), jobless claims and durable goods orders headline tonight's US data, with CBI business sentiment for the UK, and Canadian payrolls data for May. We expect market headlines from the G20 summit in Rio de Janeiro to fill the airwaves over the next few days. With the FOMC rates decision next week (little is priced in, but there are 90% odds of a September cut) there are no scheduled speeches by Fed members this week.

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Currencies

NZ TWI	69.9	-0.17%
NZD/USD	0.5929	-0.47%
NZD/AUD	0.9008	0.04%
NZD/EUR	0.5469	-0.35%
NZD/JPY	91.24	-1.54%
NZD/GBP	0.4594	-0.46%
NZD/CAD	0.8189	-0.27%
NZD/CHF	0.525	-1.11%
NZD/HKD	4.63	-0.46%
NZD/SGD	0.7966	-0.61%
NZD/CNH	4.309	-0.75%
NZD/SEK	6.391	-0.33%
NZD/DKK	4.081	-0.34%
NZD/THB	21.4	-0.60%
AUD/USD	0.6583	-0.48%
EUR/USD	1.084	-0.13%
USD/JPY	153.9	-1.06%

Source: Macrobond, ASB

Commodities

NZX WMP	3040	0.16%
Gold \$/Oz	2402	-0.30%
WTI Oil \$/brl	78.2	-1.98%

Source: Macrobond, ASB

Rates

NZ OCR	5.50	0.00
NZ 90 Dy Bnk Bll	5.51	-0.03
NZ One Yr Swap	4.83	-0.06
NZ Two Yr Swap	4.25	-0.07
NZ Five Yr Swap	3.93	-0.04
NZ 10 Year GB	4.41	0.01
US 10 Year GB	4.28	0.03
AU 10 Year GB	4.33	-0.02

Source: Macrobond, ASB

Equities

Dow Jones	39876	-1.19%
S&P 500	5438	-2.11%
NASDAQ	17396	-3.34%
FTSE	8154	-0.17%
CAC-40	7514	-1.12%
DAX	18387	-0.92%
Hang Seng	17311	-0.91%
Nikkei	39155	-1.11%
ASX 200	7964	-0.09%
NZX 50	12531	0.00%

Source: Macrobond, ASB

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