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BoE opts for a different route to FOMC

Key themes: The BoE opts to keep rates steady following the FOMC's 50bp cut, with officials showing some lingering concerns about the inflation outlook. Q2 NZ GDP went backwards as expected. Demand is weak following a period of restrictive monetary policy and we don't expect a sharp turnaround any time soon. CBA push back RBA rate cut expectations amid ongoing strength in the labour market. BoJ steps up to the plate today.

As expected, the Bank of England (BoE) opted to leave interest rates on hold at its policy meeting overnight. BoE Governor Andrew Bailey said that it was "vital that inflation stays low, so we need to be careful not to cut too fast or by too much." The policy committee voted 8-1 to leave rates on hold and also opted to maintain its annual balance sheet run off at £100bn a year. Economic forecasts were revised slightly lower, with GDP expected to slow to 0.3% in Q3 (from 0.4%) and inflation to lift back to 2.5% by year-end (was 2.8%). However, recent inflation data showed services inflation remains high at 5.6%, in part reflecting the BoE's hesitation. Markets continue to expect the next 25bp rate cut will be delivered in November.

In New Zealand, real GDP fell 0.2 qoq in the June quarter (-0.5% yoy). The print was largely in line with our pick but slightly stronger than the RBNZ August MPS forecast. GDP per capita fell 0.5% qoq, to be 2.7% lower than a year ago and has shrunk 4.6% since the peak in Q3 2022. The primary sector was the predominant driver of the fall in GDP, but there were pockets of weakness in the goods manufacturing and services sectors as well. Overall, the data highlight that the economy was weak in Q2, with soft private demand impacting multiple sectors of the economy. Q3 data to date have been 'better' than the corresponding Q2 data, but these point to a stabilisation in activity, rather than a turnaround. We continue to expect more easing from the RBNZ, with the pace of cuts tied to the economic outlook. You can read our full report here.

Australian employment growth was stronger than expected in August, with employment up 47,500 (+26,000 expected). However, it's worth noting that this was entirely due to a lift in part-time work. Elsewhere, the unemployment rate was unchanged at 4.2% and the participation rate held steady at a record high 67.1%. **Our CBA colleagues have pushed the timing for RBA rate cuts back one meeting to December 2024.** CBA note the combination of the recent strength in the labour market and hawkish RBA rhetoric as reasons for the move. CBA still expect Q3 trimmed mean CPI will print below RBA expectations. Market participants also dialled back expectations slightly for near term rate cuts following the labour market data.

Yields: US rates have been somewhat choppy following the FOMC and stronger than expected initial jobless claims data overnight, but the curve has steepened. The 2-year treasury yield has settled 2.5bp lower at 3.59% after lifting above 3.64% post jobless claims. 10-year treasuries are up 2bp to 3.72%. UK yields were higher following the BoE's decision to leave rates on hold. The NZ swap curve lifted after NZ GDP printed stronger than RBNZ expectations. However, swaps pared gains later in the day, with the 2-year up only 1.5bp by market close and the 10-year largely flat. Interest rate markets are pricing a slightly greater chance of a 50bp cut in October after yesterday's events.

Equities: It was a sea of green across equity indices yesterday and overnight. The US benchmarks were up 1.2% - 2.6%, with the Nasdaq leading the gains. In Europe, the UK FTSE 100 lifted 'only' 0.9%, relative to a 2.3% rise in the CAC 40 and 2.2% increase in the EuroStoxx 50. NZX50 closed up 0.6% and the ASX 200 also rose 0.6%, to a record high.

FX: NZD is trading higher near 0.6245 amid a softer USD. AUD edged out an extra gain, helped by the strong employment data which saw NZD/AUD ease slightly towards 0.9160. NZD/GBP fell after the BoE meeting and is trading near 0.4700.

Day ahead: Focus now moves to the final central bank decision of the week – the Bank of Japan (BoJ). We expect no change in policy settings by the BoJ after already hiking interest rates twice this cycle. The BoJ's rate hike on 31 July in part contributed to the financial market ruction in early August. BoJ officials recently stressed the need to monitor the impact of market moves on the inflation outlook, indicating no change is likely in September. Markets are also expecting no change today. Japan inflation data is also due, with already-released Tokyo inflation pointing to an acceleration in inflation in August.

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Currencies

NZ TWI	71.21	-0.15%
NZD/USD	0.6242	0.53%
NZD/AUD	0.916	-0.21%
NZD/EUR	0.5592	0.14%
NZD/JPY	89.03	0.81%
NZD/GBP	0.4701	0.02%
NZD/CAD	0.8464	0.20%
NZD/CHF	0.5289	0.69%
NZD/HKD	4.866	0.56%
NZD/SGD	0.8063	0.26%
NZD/CNH	4.415	0.22%
NZD/SEK	6.342	0.05%
NZD/DKK	4.172	0.14%
NZD/THB	20.7	-0.07%
AUD/USD	0.6815	0.75%
EUR/USD	1.116	0.39%
USD/JPY	142.6	0.25%

Source: Macrobond, ASB

Commodities

NZX WMP	3450	0.00%
Gold $/Oz	2589	1.18%
WTI Oil $/brl	70.91	-0.39%

Source: Macrobond, ASB

Rates

NZ OCR	5.25	0.00
NZ 90 Dy Bnk Bll	5.00	-0.01
NZ One Yr Swap	4.20	-0.02
NZ Two Yr Swap	3.67	0.01
NZ Five Yr Swap	3.55	0.02
NZ 10 Year GB	4.18	0.05
US 10 Year GB	3.72	0.01
AU 10 Year GB	3.93	0.06

Source: Macrobond, ASB

Equities

Dow Jones	42025	1.26%
S&P 500	5711	1.66%
NASDAQ	18014	2.51%
FTSE	8329	0.91%
CAC-40	7615	2.29%
DAX	19002	1.55%
Hang Seng	18013	2.00%
Nikkei	37155	2.13%
ASX 200	8192	0.61%
NZX 50	12665	0.00%

Source: Macrobond, ASB

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