

Hold your horses

Still-robust economic data, particularly in the US, continues to make its presence felt in financial markets. The latest US labour market data, which mostly consisted of second-tier data, was stronger than expected. JOLTS Job openings unexpectedly rose in February (January data was revised lower). Market participants are sensitive to the risk that a stronger JOLTS reading may flow through to an upside surprise for US Non-Farm Payrolls this weekend (Bloomberg). Meanwhile, US factory orders also grew by more than expected in February. The final readings of durable goods orders were revised slightly lower, but still point to decent activity in February.

Fed Funds rate expectations remain watered down relative to the start of last week, with just over a 50% chance of a cut to the Fed Funds rate priced in June. Overall, interest rate markets are pricing 68bp of cuts by the FOMC over 2024 – less than the Fed dot plots suggest. **US sharemarkets turned south amid ongoing concerns that the FOMC could delay rate cuts.** The Dow Jones is leading the declines at the time of writing and is down 1.25%. The S&P 500 has also fallen around 0.9% while the Nasdaq is 1.1% lower. These falls mirror the moves in European sharemarkets too. The Eurostoxx 50 closed down 0.8%, the French CAC 40 down 0.9% and the German DAX down 1.1%.

In New Zealand, the NZX50 closed only slightly lower (-0.1%) after recovering some losses from earlier in the session. So far, the NZX50 is up 2.8% over 2024. In Australia, the ASX 200 also closed down 0.1%. The moves in some of the other Asia-Pacific indices yesterday were larger, with the Hang Seng closing up 2.4%, but China's CSI 300 falling 0.4%.

Yesterday's Reserve Bank of Australia March meeting minutes confirmed the shift to a more neutral bias. The Minutes showed that the Board didn't consider raising the cash rate, noting that the risks to inflation were more balanced. Our CBA colleagues characterised the Minutes as "the most dovish piece of communication from the Board since the Board commenced its tightening cycle in May 2022." The Board appears to be becoming increasingly confident that the battle against inflation will be won, but simultaneously wants to ensure a soft landing. Our CBA colleagues note that the Minutes are consistent with the next move from the RBA being lower and continue to expect the RBA to start cutting in September 2024.

US Treasury yields unsurprisingly rose amid rising expectations that it could be longer before the FOMC starts to ease monetary policy. US 10-year treasury yields rose 5bp to a fresh 2024 high, meanwhile the 2-year yield has pared gains after rising around 4bp earlier in the session. 10-year yields were up across the board in Europe, rising between 10-15bp. In New Zealand, the 10-year Government bond rose 5bp to 4.6%, while the 2-year rose 3bp to 4.6%.

Whole milk powder (WMP) prices rebounded at the latest GDT auction overnight, following a series of falls at recent auctions. WMP prices rose 3.4% at the overnight auction, with futures pricing suggesting a price rise ahead of the auction. The overall index rose 2.8%, the first rise since February.

In the FX market, the Yen remains the most closely watched currency and is still hovering around 34-year highs. With the risk of currency intervention by Japanese officials high, especially if there is another jump higher in USD/JPY, it will likely remain the most watched cross this week. NZD lifted off lows overnight amid a slightly weaker USD and is trading near 0.5965. Meanwhile, NZD/AUD has continued to drift lower, despite the RBA minutes reiterating that the RBA has pivoted from a hawkish to a neutral stance. At this stage, we expect that the RBA will begin to ease monetary policy ahead of the RBNZ (September and November respectively). In contrast, interest rate markets are pricing a risk of an earlier start by the RBNZ and are pricing almost 70bp of cuts by the RBNZ in 2024 vs. just over 40bp by the RBA.

Day ahead: Once again, there is no major local data released today. It's also a very light data calendar offshore today. The main event will be Eurozone March CPI data later tonight. Headline CPI is expected to remain unchanged at 2.6%/yr while core CPI is expected to decelerate to 3.0%/yr (from 3.1%/yr). Inflation in the Eurozone is much closer to target than inflation in New Zealand. March CPI data has already been released in France, Italy and Germany, with prints slightly lower than expected.

Author: kim.mundy@asb.co.nz

Currencies

NZ TWI	70.33	0.03%
NZD/USD	0.5965	0.20%
NZD/AUD	0.9158	-0.16%
NZD/EUR	0.554	-0.04%
NZD/JPY	90.4	0.14%
NZD/GBP	0.4745	0.04%
NZD/CAD	0.8096	0.21%
NZD/CHF	0.5413	0.56%
NZD/HKD	4.67	0.25%
NZD/SGD	0.8063	0.15%
NZD/CNH	4.328	0.14%
NZD/SEK	6.399	-0.47%
NZD/DKK	4.132	-0.04%
NZD/THB	21.84	0.27%
AUD/USD	0.6514	0.39%
EUR/USD	1.077	0.23%
USD/JPY	151.6	-0.07%

Source: Macrobond, ASB

Commodities

NZX WMP	3160	0.32%
Gold \$/Oz	2271	0.87%
WTI Oil \$/bbl	83.71	0.65%

Source: Macrobond, ASB

Rates

NZ OCR	5.50	0.00
NZ 90 Dy Bnk Bill	5.63	0.00
NZ One Yr Swap	5.30	-0.02
NZ Two Yr Swap	4.84	-0.03
NZ Five Yr Swap	4.35	-0.03
NZ 10 Year GB	4.60	0.05
US 10 Year GB	4.36	0.05
AU 10 Year GB	4.07	0.09

Source: Macrobond, ASB

Equities

Dow Jones	39096	-1.19%
S&P 500	5196	-0.91%
NASDAQ	16217	-1.09%
FTSE	7935	-0.22%
CAC-40	8130	-0.92%
DAX	18283	-1.13%
Hang Seng	16932	2.36%
Nikkei	39839	0.09%
ASX 200	7888	-0.11%
NZX 50	12096	-0.08%

Source: Macrobond, ASB

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	Jordan Campbell	jordan.campbell@asb.co.nz	
Administration Manager	Caro Phillips	caro.phillips@asb.co.nz	

<https://reports.asb.co.nz/index.html>ASB Economics
ASB North Wharf, 12 Jellicoe Street, Auckland

Important Disclaimer

This document is published solely for informational purposes. It has been prepared without taking account of your objectives, financial situation, or needs. Before acting on the information in this document, you should consider the appropriateness and suitability of the information, having regard to your objectives, financial situation and needs, and, if necessary seek appropriate professional or financial advice.

We believe that the information in this document is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this document. Any opinions, conclusions or recommendations set forth in this document are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by ASB Bank Limited. We are under no obligation to, and do not, update or keep current the information contained in this document. Neither ASB nor any person involved in the preparation of this document accepts any liability for any loss or damage arising out of the use of all or any part of this document.

Any valuations, projections and forecasts contained in this document are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. ASB does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met.