Fed and BOE cut by 25bps

Key themes: Markets look to settle in the aftermath of the Republican victory. There were modest lifts in global equities and a retracement in US yields, flatter curves and a lower USD. Current updates suggest that the Republicans remain short of an outright majority in the Lower House (207 seats of the 218+ needed, 34 left to call), but have secured the Presidency (Trump has 295 electoral college votes so far) and have a majority in the Senate (52 seats so far). The Fed cut by 25bps and steer clear of mentioning the US election. The BOE cut by 25bps and also downplayed inflation risks from the UK Budget. German Chancellor Scholz has called for a snap election in January after the 3-way coalition government collapsed. Scholz had earlier dismissed his finance minister who had refused to increase federal borrowing limits to revive the flagging German economy.

As was widely expected the FOMC cut the **Fed Funds rate by 25bps to 4.50%-4.75%.** The interest rate paid on reserves balances was cut by 25bps to 4.65%. The US$60bn monthly pace of quantitative tightening (including US$25bn of US Treasuries) was maintained, with US$35bn of mortgage-backed securities reinvested in US Treasuries. **The policy assessment was little changed relative to the September decision and steered clear of mentioning the US election.** While activity had continued to expand at a solid pace, labour market conditions had eased. Risks were roughly in balance, and while progress had been made in achieving 2% inflation, core inflation remained somewhat elevated. Future moves in the policy interest rate would depend on incoming data, the evolving outlook and balance of risks. There was minimal immediate market reaction.

The Bank of England delivered its 2nd rate cut for 2025, trimming the Bank rate by 25bps to 4.75%. The vote split was 8-1. It maintained an easing bias - "a gradual approach to removing policy restraint remained appropriate" - with forecasts (that include a further 100bps of rate cuts by year end) showing the UK Budget will provide a lift to UK inflation (2.8% peak) and growth in 2025 with inflation just above the 2% target (2.2%) in 2026. **Markets are not as sanguine and are more wary over inflation risks given fiscal largesse**, with a brief tick up in UK yields after the BOE decision, with less than 75bps of BOE rate cuts priced in by the end of next year.

Global equities were generally up. The S&P500 (+0.3%), Dow (flat) and Nasdaq (+1.3%) are around record highs supported by positive corporate results, expectations of Fed easing and the Trump boost. There were further modest declines in the Vix (to around 15.2). European equity indices have mostly recovered from the previous session drop (Euro Stoxx 50 +1.1%, Dax +1.7%) but the UK FTSE was down 0.3%. Hopes of additional policy stimulus and strengthening Chinese export growth drove 1-3% gains in Chinese equity indices. The ASX 200 gained 0.2%, whilst the Nikkei (-0.3%) and NZX50 fell (-0.5%).

Global yields were generally lower last night as earlier lifts were partly unwound ahead of the FOMC decision. US Treasury yields are 5-10ps lower with the yield curve flattening (2Y 4.20%, 10Y 4.35%). UK yields (10Y 4.50%) have followed US yields lower, but briefly ticked up after the BOE decision. Eurozone yields are generally higher this morning (Ger 10Y 2.44%). NZ bond yields and swaps were little changed yesterday morning but pushed higher yesterday afternoon (NZGB 10Y 4.60%), with session gains of 5-10bps for swaps (2Y 3.86%, 5Y 3.97%). The $500m NZDM tender was filled with yields either side of mid-market levels. There were modest lifts for Australian yields (AGB 10Y 4.63%). **Commodity prices were generally firmer, supported by the lower USD.** Oil prices have nudged about 1% higher (WTI US$72.80, Brent US$76g), but have remained generally rangebound as markets weigh competing influences. There were further gains for cryptocurrencies (Bitcoin at record highs of 76k). Prices for gold rose 1.4%.

Data wrap: Jobless claims data for the US were a tad higher (initial claims 221k, continuing claims 1892k), although a rise in US unit labour costs (to 1.9% annualised rate in Q3 from an upwardly revised 2.4% in Q2) signals some remaining inflation risks. September retail sales for the Eurozone (+0.5% mom, 2.9% yoy) topped expectations with upward revisions. Large trade surpluses were delivered in China (larger than expected at US$95.7bn driven by a 12.7% yoy surge in exports and Australia (smaller than expected at A$4609m). NZ Crown Accounts for the 3 months to September were weaker than forecast, with an OBEGAL deficit of $4.2bn and net core Crown debt of 43% of GDP. **The fiscal position is reflective of the weak NZ economic environment, and we remain concerned that the return to an underlying fiscal surplus will take longer than the 2027/28 timeframe earmarked in Budget 2024,** which along with higher capital investment needs could translate into slower improvements in public debt, with potentially higher bond issuance.

RBNZ Governor Orr and Deputy Governor Hawkesby spoke yesterday at a parliament briefing on financial stability. Hawkesby acknowledged that if the proposed measures by the incoming Trump administration were enacted (10%-20% tariffs on exports to the US, lower US tax rates and reduced regulation and migration) they would likely add to inflation but that this would be manageable given operationally independent central banks. It is early days and much will depend on what gets pushed through and how other trading partners respond. Still, NZ and global interest rates will be higher, all else equal, implying less monetary easing from here. Orr warned that the world was possibly past peak global trade and that the NZ financial system needed to be as resilient as possible to cope with adverse shocks.

FX: The USD partly unwound some of its post-election gains. NOK, AUD, NZD and SEK led the gains. The NZD gained about 40 pips against the USD yesterday afternoon (to 0.5980 USD) and has pushed above 60 US cents this morning after trading in a 0.5980 to 0.6040 USD overnight range. The NZD was generally higher against most crosses but has slipped to 0.9020 AUD this morning.

Day ahead: No major local data or events today or across the Tasman, with Chinese consumer and producer prices data released tomorrow. The University of Michigan consumer sentiment data is released tomorrow (small gains expected). There will be a number of speeches by FOMC, ECB, and BOE policymakers over the next 24 hours. Have a good weekend.

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Currencies

NZ TWI	70.18	0.19%
NZD/USD	0.6019	1.35%
NZD/AUD	0.9029	-0.10%
NZD/EUR	0.5574	0.70%
NZD/JPY	92.07	0.29%
NZD/GBP	0.4639	0.61%
NZD/CAD	0.8343	0.80%
NZD/CHF	0.5254	0.94%
NZD/HKD	4.678	1.30%
NZD/SGD	0.7952	0.47%
NZD/CNH	4.307	0.66%
NZD/SEK	6.447	0.01%
NZD/DKK	4.157	0.71%
NZD/THB	20.48	0.42%
AUD/USD	0.6667	1.49%
EUR/USD	1.08	0.65%
USD/JPY	153	-1.09%

Source: Macrobond, ASB

Commodities

NZX WMP	3670	0.27%
Gold $/Oz	2696	1.37%
WTI Oil $/brl	71.69	-0.42%

Source: Macrobond, ASB

Rates

NZ OCR	4.75	0.00
NZ 90 Dy Bnk Bll	4.48	0.00
NZ One Yr Swap	4.01	0.05
NZ Two Yr Swap	3.86	0.07
NZ Five Yr Swap	3.97	0.08
NZ 10 Year GB	4.62	0.04
US 10 Year GB	4.35	-0.08
AU 10 Year GB	4.64	0.01

Source: Macrobond, ASB

Equities

Dow Jones	43703	-0.06%
S&P 500	5963	0.57%
NASDAQ	19216	1.23%
FTSE	8141	-0.32%
CAC-40	7426	0.76%
DAX	19363	1.70%
Hang Seng	20953	2.02%
Nikkei	39381	-0.25%
ASX 200	8226	0.33%
NZX 50	12581	0.00%

Source: Macrobond, ASB

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