

Watching the polls

Key themes: US markets were closed overnight for the Independence Day Holiday in the US. Equities were broadly higher in the markets that were open overnight, still being helped somewhat by the weaker US data. Government yields in Europe also lifted, with polls suggesting a far-right majority in France won't materialise. It's likely to be reasonably quiet for the rest of the week, with many in the US enjoying a long weekend. But Friday night's Non-Farm Payrolls remains the highlight of the week.

Yesterday, Mark Smith, published a note looking at the household reset that is playing out in New Zealand (read the full note [here](#)). Many of the current difficulties that have been faced by NZ households are a hangover of the consumer spending and housing market binge that occurred from late 2020 to early 2022 which artificially inflated the sector. The 5.50% OCR has proved to be a circuit breaker that has sharply cooled housing market momentum, house prices, household spending, and the demand for labour. These adjustments have largely played out, but the outlook for employment and for labour incomes is likely to weaken as struggling corporate profitability and the weaker economic backdrop results in more subdued hiring and lower wage increases. **This is one of the key reasons why we have become more confident that inflation will move comfortably back into the RBNZ's target band in 2024, and why we think the RBNZ will cut the OCR in 2024 – in November to be precise.**

Offshore, focus was firmly on elections in France and the UK. The results of the UK election are expected later this afternoon NZT, with the first exit polls expected around 11am NZT (Bloomberg). Leading into the election, polling suggested the Labour Party would receive a comfortable majority after 14 years of Conservative Party rule. Meanwhile, polls in France suggest that Marine Le Penn's far right party will fall short of a majority. The second round of voting in France will take place this weekend.

The ECB account of monetary policy showed there was a degree of caution behind the decision to cut interest rates by 25bp in June. Although forward-looking wage trackers gave the committee the comfort to cut, lingering upside risks to the wage outlook were also thoroughly discussed. These ongoing upside risks are consistent with the ECB cutting rates slowly, with the next rate cut not expected until September.

Government yields were higher across the board in Europe overnight, helped by polling suggesting National Rally won't secure a majority in the French election (France 2-year +1.5bps, 10-year +2.7bps). UK government bond yields were also higher (2-year +3.3bps, 10-year +2.5bps). **Back in NZ, longer-term yields rose yesterday following a weak NZDM auction.** The government tendered \$500m of 2031, 2034 and 2041 government bonds, with all three lines failing to match demand from previous auctions. Demand for the 41's was particularly soft with a bid to cover ratio of just 0.94.

Equities: Higher in Europe amid elections, and lingering optimism from earlier in the week that softer US employment data would open the door to FOMC rate cuts. The Euro Stoxx 50 lifted 0.45%, the FTSE 100 was up 0.9% and the French CAC 40 rose 0.8%. In New Zealand, the NZX50 closed down 0.4% while Australia's ASX 200 lifted 1.2%.

FX: Broad USD weakness has been the recent theme in currency markets, with NZD/USD trading higher near 0.6120. NZD/GBP is little changed near 0.4795, with an as expected UK election result (i.e. a Labour Party victory) unlikely to materially impact GBP. Meanwhile, NZD/AUD continues to modestly weaken with relative interest rates weighing on the cross. Markets continue to price a risk of a rate hike in Australia in 2024, compared to around 40bp of cuts in NZ by the end of 2024. We think this pricing is still a little rich, but we do now expect the RBNZ will cut the OCR by 25bps in November 2024.

Day ahead: The week will finish with labour market data in both Canada and the United States. US Non-Farm Payrolls are expected to lift by 190,000 in June, following May's 272,000 increase. Meanwhile, the unemployment rate is expected to remain low at 4%. Already released employment data this week was on the softer side of expectations. In Canada, employment growth of 25,000 is expected with the outlook for a slight rise in the unemployment rate to 6.3%.

Author: kim.mundy@asb.co.nz

Currencies

NZ TWI	72.14	-0.05%
NZD/USD	0.6118	0.25%
NZD/AUD	0.9092	-0.10%
NZD/EUR	0.5657	0.02%
NZD/JPY	98.59	-0.06%
NZD/GBP	0.4794	0.10%
NZD/CAD	0.8327	0.04%
NZD/CHF	0.5505	0.05%
NZD/HKD	4.778	0.24%
NZD/SGD	0.8266	0.06%
NZD/CNH	4.461	0.10%
NZD/SEK	6.428	0.38%
NZD/DKK	4.22	0.02%
NZD/THB	22.4	0.06%
AUD/USD	0.6728	0.34%
EUR/USD	1.081	0.25%
USD/JPY	161.2	-0.32%

Source: Macrobond, ASB

Commodities

NZX WMP	3085	-0.48%
Gold \$/Oz	2357	0.02%
WTI Oil \$/bbl	83.88	1.29%

Source: Macrobond, ASB

Rates

NZ OCR	5.50	0.00
NZ 90 Dy Bnk Bill	5.61	-0.01
NZ One Yr Swap	5.29	0.00
NZ Two Yr Swap	4.88	0.01
NZ Five Yr Swap	4.46	0.02
NZ 10 Year GB	4.74	0.04
US 10 Year GB	4.36	0.00
AU 10 Year GB	4.41	-0.01

Source: Macrobond, ASB

Equities

Dow Jones	39308	-0.06%
S&P 500	5537	0.51%
NASDAQ	18188	0.88%
FTSE	8241	0.86%
CAC-40	7696	0.83%
DAX	18450	0.41%
Hang Seng	18028	0.28%
Nikkei	40914	0.82%
ASX 200	7832	1.19%
NZX 50	11747	0.00%

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	Yen Nguyen	yen.nguyen@asb.co.nz	
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

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