

Soft landing ahead (not NZ)

Key themes: US economic data generally prints on the high side of expectations, boosting the soft-landing narrative. Equities bounced off the back of that narrative, with the stock rotation visible again in the US. In New Zealand, swaps continue to fall as markets price in a greater chance of an August RBNZ rate cut. Labour market data on August 7th is the next crucial piece of data ahead of the RBNZ's August meeting. **We still view the August meeting as being 'live.'**

Yesterday, the People's Bank of China cut the one-year medium-term lending facility (MLF) by 20bp to 2.3%. The move was both unexpected, and the largest cut since April 2020. The move followed the 10bp cut to the seven-day reserve repo rate on Monday, with some analysts suggesting that the PBOC is favouring the shorter-term rates to guide markets, over the MLF (Bloomberg). The easing in monetary policy comes as China's economy is continuing to fail to fire. Most recent GDP growth was weaker than expected, with soft consumer spending a key drag on activity.

US data wrap: Q2 GDP rose at a 2.8% annualised rate, stronger than the market's 2.0% pick and an acceleration on Q1's 1.4%. Consumer spending, the main driver of the US economy, lifted on Q1, but consumer spending has eased from 3.2% in H223 to 1.9% in H124 amid a cooling in the labour market. Meanwhile, PCE inflation continued to cool in Q2, with the core measure falling from 3.7% yoy to 2.9% (albeit slightly higher than the 2.7% expected). Elsewhere, ex-transport durable goods rose 0.5% mom in June (0.2% expected) while capital goods orders (non-defence ex-air) rose 1.0% mom (0.2% expected).

Yields: US yields were mixed, with modest increases in the short-end (2-year up 0.6bp to 4.26%), while the 10-year fell 2.4bp to 4.26%. Relatively strong US economic data did little to sway market pricing for near-term FOMC rate cuts. Markets still expect the FOMC to leave rates on hold next week but have almost fully priced a 25bp hike at the September meeting. Yields were firmly lower across curves in Europe, with 10-year yields down 2.6-2.9bps in the UK, France and Germany. Falls in 2-year yields were similar (UK -3.7bp, France -2bp, Germany -2bp).

NZ swap rates continued their recent decline yesterday. The 2-year swap led declines (down 2.5bps to 4.22%) and is sitting around 2-year lows. Meanwhile, the NZGB curve steepened (2 year -0.9bp, 10 year +1.8bp). Markets have continued to price a higher chance of a 25bp rate cut in August. Markets are now pricing around a 70% chance of a move in August, compared to 47% at the start of the week.

Equities: US equities have recovered some lost ground after yesterday's sizeable losses, helped by the stronger than expected US GDP print. The Dow Jones and S&P 500 were up 0.6% and 0.4% respectively at the time of writing, benefitting from the rotation out of the tech-heavy weights. In contrast, the Nasdaq is down 0.2%. Equities were largely in the red across Europe, with the UK's FTSE 100 the notable exception (+0.4%). On what was the busiest day of the corporate earnings season, European equities fell amid underwhelming reports from a number of companies, including Nestle SA (Bloomberg). In NZ, the NZX 50 fell 1.1% yesterday, while Australia's ASX 200 fell 1.3%.

FX: NZD remains heavy and was the worst performer amidst G-10 currencies. NZD is trading around 0.5890 and is sitting near a 2-month low. Increased expectations for near-term rate cuts by the RBNZ continue to weigh on NZD. NZD/AUD continues to trade around 0.9000. Meanwhile, the Yen's recent appreciation stalled overnight, with USD/JPY back to around 153.8.

Day ahead: July consumer confidence is the sole NZ data release today. We expect another subdued print, as the reality of a softening labour market combined with the still-high cost of living is placing strain on many households. We will also be watching surveyed inflation expectations, with the 2-year measure unexpectedly ticking higher in June.

Offshore, the US June PCE deflator is the last piece of key data ahead of the FOMC's next policy meeting (6am next Thursday). Our CBA colleagues expect little inflation will be evident following the already-released US CPI. The market is picking a 0.2% mom lift in the PCE measure which would see annual inflation dip from 2.6% in May to 2.5% in June. At this stage, markets have almost fully priced a 25bp cut by the FOMC in September. Tokyo CPI is also released today. Core inflation (ex-energy) is expected to remain above 2%. The Bank of Japan also meets next week where a 10bp hike is almost 90% priced.

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Currencies

NZ TWI	69.47	-0.03%
NZD/USD	0.5887	-0.73%
NZD/AUD	0.9004	-0.08%
NZD/EUR	0.5428	-0.79%
NZD/JPY	90.55	-0.75%
NZD/GBP	0.4581	-0.28%
NZD/CAD	0.8138	-0.61%
NZD/CHF	0.5185	-1.22%
NZD/HKD	4.596	-0.76%
NZD/SGD	0.7909	-0.73%
NZD/CNH	4.263	-1.07%
NZD/SEK	6.378	-0.21%
NZD/DKK	4.051	-0.77%
NZD/THB	21.35	-0.21%
AUD/USD	0.6538	-0.65%
EUR/USD	1.085	0.05%
USD/JPY	153.8	-0.03%

Source: Macrobond, ASB

Commodities

NZX WMP	3060	0.66%
Gold \$/Oz	2360	-1.56%
WTI Oil \$/bbl	78.88	0.87%

Source: Macrobond, ASB

Rates

NZ OCR	5.50	0.00
NZ 90 Dy Bnk Bill	5.49	-0.02
NZ One Yr Swap	4.82	-0.02
NZ Two Yr Swap	4.22	-0.03
NZ Five Yr Swap	3.91	-0.01
NZ 10 Year GB	4.42	0.02
US 10 Year GB	4.25	-0.04
AU 10 Year GB	4.31	-0.02

Source: Macrobond, ASB

Equities

Dow Jones	39935	0.20%
S&P 500	5415	-0.22%
NASDAQ	17182	-0.93%
FTSE	8186	0.40%
CAC-40	7427	-1.15%
DAX	18299	-0.48%
Hang Seng	17005	-1.77%
Nikkei	37870	-3.28%
ASX 200	7861	-1.29%
NZX 50	12396	0.00%

Source: Macrobond, ASB

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