

## Brace for volatility

**Key themes:** Markets continue to play the waiting game ahead of tomorrow's Fed decision, Q2 NZ GDP and Australian August labour market data. Stronger than expected US data and positioning ahead to the Fed decision pushed global yields and the USD higher, with commodity prices making gains. Initial gains to US equities faded. Odds of a 50bp Bank of Canada cut edged up after headline CPI inflation fell to an early 2021 low of 2.0%. Tomorrow is shaping up to be pivotal for financial markets. Brace for volatility.

**US data was generally stronger than expected.** US August retail sales was stronger than expected, rising 0.1% (mkt: down 0.2% mom), with July sales revised up to 1.1% mom. Sales in the control group were in line with expectations (0.3% mom). US industrial (0.8% mom) and manufacturing production (0.9% mom) were considerably stronger than expected with capacity utilisation ticking up to 78.0%. The NAHB housing index was in line with expectations at 41 (39 prior). By contrast, the ZEW September index for Germany (3.6) and the Eurozone (9.3) eased on the prior month.

**Canadian yields and the CAD briefly eased after Canada August inflation came in slightly weaker than expected for headline CPI,** easing to 2.0% yoy, its lowest since early 2021 and in the midpoint of the 1-3% inflation target. Average inflation from the trimmed mean and median eased to 2.35% yoy from 2.55% yoy, broadly in line with expectations. Bank of Canada (BoC) Governor Macklem had earlier raised the prospect of an October 50bp rate cut to the 4.25% policy interest rate as the Bank "don't want to see further or sustained weakness in the labour market". The RBNZ are likely to share similar concerns. October rate cut pricing for the Bank of Canada ticked up to 39bps (37bps prior to the CPI), with 74bps of cuts by year end (73bps).

**Global yields have pushed higher overnight, led by short-term yields.** US Treasury yields rose after US data was released and is currently up 2-4bps over the session (2Y 3.59%, 10YT 3.64%), with a modest paring back in Fed rate cut pricing (see below). European yields have also pushed higher, with ECB Governing Council member Simkus signalling there was little chance of an October ECB rate cut. Local swap and bond yields (10Y 4.08%) edged higher yesterday, with swap yields a tad above 2-year lows (2Y 3.62%, 10Y 3.78%). NZ bank bill yields have continued to move lower, with 3-month yields falling to fresh 18-month lows (5.01%). There are currently just under 90bps of RBNZ cuts priced in by year end, but this will change post-Fed. Australian bond yields edged higher across the curve (10Y 3.83%).

**Initial gains to US equities have faded.** Gains at the open of the session to the Dow, S&P500 and Nasdaq have faded, with all three indices about square to slightly down. European bourses rose on the market open and have broadly held onto earlier gains, with the Euro Stoxx 50 and FTSE 100 up 0.7% and 0.4% respectively over the session. Concerns over the stronger yen and the Chinese economy weighed on the Nikkei (-1.0%). The ASX 200 was up 0.3%, with the NZSX 50 down 0.4%.

**Prices from the GDT dairy auction rose 0.8% to US\$3,883 per MT.** Prices for whole milk powder (+1.5%) and skim milk powder (+2.2%) led the gains, with some pullback in butter and AMF prices, albeit from very high levels. We remain confident over our Fonterra \$8.60kgMS milk price forecast this season and will publish further details in our commodities report later today.

**Commodity prices were generally higher, with widespread gains for energy, metals and agricultural commodities.** Near-term contract prices for Brent crude (US\$73.90) and WTI (US\$71.40) were up 1.5% to 1.8% per barrel. Tight supply (Gulf of Mexico and Libya) concerns remain despite worries over Chinese demand.

**FX:** Earlier gains to the yen and other low yielding currencies (CHF) faded, with the USD index posting solid gains overnight. The AUD and NOK were other strong performers, with only a fleeting post-CPI dip for the CAD. JPY, GBP, CHF and the NZD were the weaker G10 performers overnight. Despite gains to dairy prices, the NZD has lost ground against the USD, trading in a 0.6175 to 0.6215 USD range overnight (currently 0.6185 USD). The NZD shed about 25pips against the AUD (currently 0.9155).

**Day ahead:** Westpac NZ Q3 consumer sentiment at 9am (small improvement expected). The market expects the Q2 NZ current account deficit to narrow to 6.5% of GDP, with upward historical revisions for services exports potentially producing a narrower than expected deficit. We expect lower debt servicing costs and sluggish domestic demand to drive a narrowing trajectory for current account deficits heading into 2025. The Westpac leading index for Australia, trade data for Japan and machinery orders are out ahead of UK CPI data (mkt: CPI 2.2%, core CPI 3.6% yoy), Eurozone CPI (mkt: CPI 2.2% yoy, core CPI 2.8% yoy), and US housing starts and building permits. There are a few ECB speakers on the wires. At 6am tomorrow is the FOMC decision, with the majority of analysts calling for a 25bp cut, whereas current market pricing has 39bps of cuts priced in. Focus will also be on the dot plots, with current market pricing having 112bps of cuts in the last 3 decisions of 2024 and a further 140bps or so of cuts over 2025. This compares with just 25bps for 2024 and 100bps for 2025 cuts in the June dot plots).

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## Currencies

NZ TWI	70.83	-0.13%
NZD/USD	0.6185	-0.27%
NZD/AUD	0.9155	-0.34%
NZD/EUR	0.5564	-0.13%
NZD/JPY	87.92	0.84%
NZD/GBP	0.47	0.15%
NZD/CAD	0.8407	-0.21%
NZD/CHF	0.5237	-0.04%
NZD/HKD	4.821	-0.24%
NZD/SGD	0.8018	-0.19%
NZD/CNH	4.398	-0.08%
NZD/SEK	6.301	-0.12%
NZD/DKK	4.152	-0.11%
NZD/THB	20.65	0.16%
AUD/USD	0.6756	0.06%
EUR/USD	1.112	-0.15%
USD/JPY	142.2	1.10%

Source: Macrobond, ASB

## Commodities

NZX WMP	3460	1.17%
Gold \$/Oz	2569	-0.54%
WTI Oil \$/brl	70.09	2.10%

Source: Macrobond, ASB

## Equities

Dow Jones	41559	-0.15%
S&P 500	5625	-0.15%
NASDAQ	17598	0.03%
FTSE	8310	0.38%
CAC-40	7487	0.51%
DAX	18726	0.50%
Hang Seng	17660	1.37%
Nikkei	36203	-1.03%
ASX 200	8141	0.24%
NZX 50	12672	0.00%

Source: Macrobond, ASB

## Rates

NZ OCR	5.25	0.00
NZ 90 Dy Bnk Bll	5.01	-0.04
NZ One Yr Swap	4.18	0.00
NZ Two Yr Swap	3.62	0.02
NZ Five Yr Swap	3.49	0.02
NZ 10 Year GB	4.09	0.03
US 10 Year GB	3.64	0.02
AU 10 Year GB	3.83	0.02

Source: Macrobond, ASB

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