

Corporate earnings in the spotlight

Key themes: US politics dominates the headlines, with support building behind Vice President Kamala Harris to be the Democrat Party presidential nominee. US Secret Service Director Cheatele also resigns after the Trump shooting. To date, US Treasury yields and the USD have barely budged since President Biden's exit from the 2024 Presidential race, with markets trying to make sense of what a change in the Democrat leadership will make to the 'Trump Trade' of higher yields and steeper curves. The immediate focus for equity markets has shifted from US politics and the Fed to corporate earnings, with US companies accounting for about 30% of the S&P500 due to report this week. Results will need to be good to justify lofty valuations. Lower NZ yields and the expectation of pending RBNZ OCR cuts have continued to weigh on the NZD.

US politics update: Vice President Kamala Harris looks to have a clear path to the Democratic nomination, with the number of high-profile endorsements growing and reports suggesting that she has secured more than 3,000 delegates to win the Democrat nomination to be President in the first round (the magic number is at least 1,976). There also appears to be few challengers in the wings. However, the nomination of Harris will need to be ratified by a delegate vote (this could take place before the August 19-22 Democratic National Convention she) before she can be officially confirmed as the Democrat nominee. Former President Trump has reportedly said he will be willing to debate Harris before the US presidential elections on November 5. Brace for fireworks.

US equities have consolidated recent gains but are still below mid-July highs. The S&P500 and Nasdaq are little changed from the market open, with small caps continuing to outperform larger stocks. The focus has turned to corporate earnings, with mixed results thus far. Reports from Tesla and Alphabet are due after the US market close. European benchmarks opened slightly lower with mixed fortunes at market closing (FTSE 100 -0.4%, Euro Stoxx 50 +0.4%, DAX +0.8%). Results were mixed in the Asia Pacific session, with falls for Chinese indices but gains for the ASX 200 (+0.5%) and NZSX 50 (+0.9%).

US Treasury yields were 1-3bps lower across the curve (2Y 4.49%, 10Y 4.25%), led by lower short-term rates on expectations of pending Fed rate cuts. There was strong demand at the US\$69bn 2-year US Treasury auction, with yields more than 2bps below mid-market levels. There were slightly larger falls for European yields (UK 10Y 4.12%, Ger10Y 2.43%). Australian yields opened 3-4bps higher on the back of the offshore moves and sustained those gains (AU 10YGB 4.35%). The launch of the Dec 2035 bond by the AOFM added to pressures. NZ yields pushed lower yesterday, with swap yields 1-3bps lower across the curve, and with 2-year swap yields hitting 2-year lows (4.33%). NZ government bond yields were 1bp lower (10Y 4.38%). The NZ-AU 10-year government bond spread narrowed to 2-year lows. OIS pricing has about 150bps of OCR cuts over the next 12 months, including 70bps by year end.

Oil prices are hovering at close to 6-week lows, weighed by concerns over Chinese demand. Near-term contract prices were down close to 1½% for WTI (US\$77.25 per barrel) and Brent (US\$81.30). The issue is whether OPEC+ producers respond with production cuts.

US data was on the weaker side of the ledger, for the Philly (-19.1) and Richmond Fed surveys (-17 for manufacturing and -9 for business conditions), with a larger than expected 5.4% falls for US existing home sales in June.

FX: The winding back of selling positions of the yen leading to July 30/31 BOJ meeting provided support to the JGB, which has the strongest G10 currency overnight and is currently trading around 155.6 USD. The USD index was choppy overnight but has made gains against most majors. **Lower NZ yields and the expectations that the RBNZ could be cutting the OCR in the next few months weighed on the NZD**, that joined NOK at the bottom on the G10 currency ladder. The NZD is hovering at 9-year lows against sterling (0.4614 GBP) and is around 9-month lows against the euro (0.5490). The NZD has remained stuck below US 60 cents and traded in a narrow 0.5940 to 0.5970 USD range overnight. The NZD has fared better against the AUD, trading in tight ranges around 0.9000 AUD.

Day ahead: No major releases are scheduled for NZ. July manufacturing and services PMIs are released for Australia (11am), Japan (12.30), the UK (mkt: manufacturing PMI 51, services 52.5), Eurozone (mkt: 46.1 and 52.9 respectively), Canada (mkt: 46.1 and 52.9 respectively), and the US (mkt: 51.7, 54.8 respectively). New house sales data are out in the US. We expect market headlines from the G20 summit in Rio de Janeiro to fill the airwaves over the next few days. With the FOMC rates decision next week (widely expected to be a no-change decision) there are no scheduled speeches by Fed members this week.

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Currencies

NZ TWI	70.21	-0.14%
NZD/USD	0.5953	-0.43%
NZD/AUD	0.9002	0.01%
NZD/EUR	0.5487	-0.04%
NZD/JPY	92.66	-1.30%
NZD/GBP	0.4614	-0.19%
NZD/CAD	0.8201	-0.29%
NZD/CHF	0.5307	-0.21%
NZD/HKD	4.649	-0.40%
NZD/SGD	0.8012	-0.45%
NZD/CNH	4.34	-0.50%
NZD/SEK	6.409	-0.04%
NZD/DKK	4.095	-0.04%
NZD/THB	21.52	-0.84%
AUD/USD	0.6614	-0.44%
EUR/USD	1.085	-0.38%
USD/JPY	155.7	-0.88%

Source: Macrobond, ASB

Commodities

NZX WMP	3035	0.50%
Gold \$/Oz	2407	0.45%
WTI Oil \$/bbl	79.78	-0.44%

Source: Macrobond, ASB

Rates

NZ OCR	5.50	0.00
NZ 90 Dy Bnk Bill	5.54	0.00
NZ One Yr Swap	4.90	-0.02
NZ Two Yr Swap	4.33	-0.03
NZ Five Yr Swap	3.96	-0.03
NZ 10 Year GB	4.40	-0.01
US 10 Year GB	4.24	-0.01
AU 10 Year GB	4.35	0.04

Source: Macrobond, ASB

Equities

Dow Jones	40418	0.01%
S&P 500	5571	0.12%
NASDAQ	18023	0.09%
FTSE	8167	-0.38%
CAC-40	7599	-0.31%
DAX	18558	0.82%
Hang Seng	17469	-0.94%
Nikkei	39594	-0.01%
ASX 200	7971	0.50%
NZX 50	12426	0.00%

Source: Macrobond, ASB

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