

Market Alert

Wednesday 27 January 2021

CURRENCIES	Spot	6mths
NZD/USD	0.7241	0.0001
NZD/AUD	0.9346	-0.0009
NZD/JPY	75.05	-0.15
NZD/EUR	0.5953	-0.0023
NZD/GBP	0.5248	-0.0005
NZD/CNH	4.6860	0.0552
AUD/USD	0.7747	0.0008
AUD/EUR	0.6369	-0.0018
EUR/USD	1.2164	0.0049
USD/CNH	7.1227	0.0758
GBP/USD	1.3734	0.0013
EUR/GBP	0.8857	0.0027

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.10%
90 day bills	0.29%	0.01%
2 year swap	0.30%	0.08%
10 year Govt	1.03%	1.11%

You have got to love an economist,

with a view!

And the economist at Capital Economics definitely has a view forecasting the RBNZ asset purchases will be wound back this year, the RBNZ will hike rates in 2022, and that further hikes in 2023 will eventually take the OCR to 1.0% by mid-2023.

The rationale is that GDP growth, the labour market, and inflation will all, "be much stronger than the Bank has anticipated" and, "by the end of 2022 we expect inflation will have been around or above target for nearly two years, and that

employment should be above its maximum sustainable level. On that basis we expect the Bank to begin hiking rates at the end of 2022."

On a positive note, and in a complete contrast to Australia, New Zealand upgraded and "modernised" its Free Trade Agreement with China ensuring it remains fit for purpose for another decade. Apparently, it makes exporting to China easier and is expected to reduce compliance costs for exporters, while wood and paper exporters will be granted tariff-free access. The deal will also benefit exporters of perishable goods such as seafood and other primary sector industries.

While the World Bank trimmed its 2021 growth prediction to 4% earlier this week, the IMF took a different tone and increased its 2021 global economic growth projections to 5.5% from 5.2%, amid expectations of a vaccine-powered strengthening of activity later in the year and additional policy support in the larger economies.

However, are we seeing the warning lights of a currency war after an ECB source announced the ECB, "will study the impact of the ECB vs. Fed policy on exchange rates," and that they will "query dollar weakness despite a stronger US economy." While the prospect of another USD1.9 trillion fiscal stimulus represents a long-term structural headwind for the US dollar, talk of a boost for the

greenback driven by a higher yield curve is conceivably premature with the current US 10-year yield at 1.03%. Overnight the Euro found a molecule of support from ECB member, François Villeroy de Galhau, who stated, "Inflation could exceed 2% temporarily."

In a release of the minutes from the BoJ's Monetary Policy Meeting on the 17-18 December, members shared a view that they should ease rates without hesitation if required, that members must seek ways to make its ETF buying more flexible under the current ultra-easy policy settings, with, lastly, one member adding the BoJ must control the shape of their yield curve more meticulously as it is desirable for the curve to steepen moderately.

European stocks advanced overnight, supported by M&A activity with bourses up around 1.5%, while US equities remain flat. Going into the Asian close last night, the NZD/USD and AUD/USD exchange rates came under selling pressure, but the European open saw both currencies structurally bid currently at 0.7240 and 0.7750 respectively.

Proving his green credentials

Following the cancellation of the Keystone oil pipeline, US Preseident, Joe Biden, will announce oil and gas drilling bans for Federal land on Wednesday. Is this the beginning of the end for big oil?



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Daily Rates

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FX	Spot Mid	FECs (mid)				Spot Mid		
		1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	75.15					CAD	0.9192	0.9835
NZD/USD	0.7241	0.0000	0.0000	0.0001	0.0000	CHF	0.6421	0.6870
NZD/AUD	0.9346	-0.0001	-0.0005	-0.0009	-0.0019	CNY	4.6809	5.0084
NZD/JPY	75.05	-0.02	-0.07	-0.15	-0.37	DKK	4.4281	4.7379
NZD/EUR	0.5953	-0.0004	-0.0012	-0.0023	-0.0050	FJD	1.4742	1.5774
NZD/GBP	0.5248	-0.0001	-0.0002	-0.0005	-0.0013	HKD	5.6129	6.0057
						KRW	798.83	854.73
AU TWI	63.60					MYR	2.9128	3.1166
AUD/USD	0.7747	0.0002	0.0005	0.0008	0.0016	NOK	6.1767	6.6089
AUD/NZD	1.0700	0.0002	0.0006	0.0011	0.0021	SEK	6.0062	6.4264
AUD/JPY	80.30	-0.01	-0.03	-0.08	-0.23	SGD	0.9590	1.0261
AUD/EUR	0.6369	-0.0003	-0.0009	-0.0018	-0.0041	TWD	20.29	21.71
AUD/GBP	0.5641	0.0000	0.0001	0.0001	-0.0002	ZAR	10.9179	11.6819
USD Index	90.17							
EUR/USD	1.2164	0.0008	0.0024	0.0049	0.0103	EQUITIES		
USD/JPY	103.66	-0.03	-0.10	-0.22	-0.51			Index
GBP/USD	1.3734	0.0002	0.0007	0.0013	0.0033	NZX50		13,323
EUR/GBP	0.8857	0.0004	0.0013	0.0027	0.0054	ASX200		6,825
						Dow Jones		30,997
						S&P 500		3,860
						FTSE100		6,654
						DAX 30		13,871
						Nikkei		28,546
						COMMODITIES		
								USD
						Dubai Light		55.02
						Brent Crude		55.87
						Gold		1,851.79
						Silver		25.46
						CRB Index		186.23

INTEREST RATES	New Zealand		Australia	
	Borrow	Invest	Borrow	Invest
30 day bank bills	0.28%	0.24%	0.02%	0.02%
90 day bank bills	0.31%	0.27%	0.03%	-0.01%
FRA 90d in 3mths	0.27%	0.24%	0.04%	-0.01%
FRA 180d in 6mths	0.26%	0.23%	0.06%	0.02%
1 year swap*	0.28%	0.25%	0.03%	0.02%
2 year swap*	0.32%	0.29%	0.08%	0.07%
3 year swap*	0.39%	0.36%	0.16%	0.16%
5 year swap*	0.62%	0.59%	0.44%	0.43%
10 year swap*	1.12%	1.10%	1.09%	1.07%
10 year Govt bond		1.02%		1.11%

* Semi-annual rate resets except AUD 1,2,3 year quarterly

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