

Market Alert

Tuesday 16 February 2021

CURRENCIES	Spot	6mths
NZD/USD	0.7234	-0.0001
NZD/AUD	0.9294	-0.0009
NZD/JPY	76.20	-0.16
NZD/EUR	0.5963	-0.0023
NZD/GBP	0.5248	-0.0004
NZD/CNH	4.6342	0.0576
AUD/USD	0.7784	0.0006
AUD/EUR	0.6416	-0.0019
EUR/USD	1.2132	0.0046
USD/CNH	7.1227	0.0806
GBP/USD	1.3907	0.0008
EUR/GBP	0.8724	0.0028

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.10%
90 day bills	0.30%	0.01%
2 year swap	0.37%	0.07%
10 year Govt	1.37%	1.32%

Where are the USD buyers?

With US market participants celebrating Presidents day, it appeared that the USD bears took advantage of the illiquidity to sell the USD-index to 90.30, a level not seen since late January, as money continued to flow into riskier currencies amid the growing prospects of a robust economic recovery supported by hopes for more government spending and the rollout of vaccines.

The biggest gain overnight was the pound, which broke above the GBP/USD level of 1.39 for the first time in nearly three years, followed by the USD/CNH,

which is losing ground as the offshore yuan, the CNH rallied to its highest level since June-2018. Even Japanese PM, Yoshihide Suga, got involved announcing he's "closely watching the FX." I suspect he will like watching NZD/JPY, because it busted above the 76.00 level to be at 76.20. In amongst this, the NZD and AUD gently ground higher against the USD to be at 0.7230 and 0.7785, respectively.

In terms of the overnight data, it was a mixed bag after Japanese preliminary GDP for Q4 jumped to 3.0% against an expected 2.4% increase. For 2020 as a whole, the Japanese economy shrank by 4.8 to record its first annual contraction since 2009. While private consumption and business spending were strong, the GDP deflator, which is an inflation indication, was particularly weak at 0.2%.

Japanese economy minister, Yasutoshi Nishimura, stated "the Q4 GDP result points to a potential economic recovery," before adding "while the economy recovery is at a half-way point, the economy is still below its pre-pandemic level and we need to pay close attention to the downside risks to the economy."

Meanwhile, Singapore Q4 GDP printed at +3.8% for the quarter, and was down -5.4% for 2020, which was way worse than the -2.4% forecast.

In the Eurozone, the trade surplus widened to EUR29.2 billion in December from November's EUR22.6 billion.

This gain was above market expectations of EUR25.3 billion as exports climbed 2.3% on the year while imports fell 1.3%.

While the USD spent the session under pressure, international equity bourses took advantage to cement gains across all indices. Commodities also tracked higher while international bond markets played catch-up on the US yield gains from last week. This saw the 10-year bund yield climb 6 pips to -0.40%, while the 10-year NZ and AU swap rates made substantial gains to be at 1.51% and 1.33% respectively.

In breaking news

Pascal Donohoe, President of the Eurogroup, offered fresh hints that further monetary financing is coming, stating "supportive economic policies should remain in place as long as needed. National budgets should be approached in a co-ordinated manner. As the recovery phase is kicking in, we will move to more targeted support measures for firms." Reading between the lines, it would appear that debt discipline will be loosened amongst member states as per the EU's Stability and Growth Pact, which limits government deficits at 3.0% of GDP and debt at 60.0% of GDP, with the ECB adding further monetary financing.

This should support Eurozone growth in 2021 and 2022 on more spending, but the Euro should weaken.



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