

Market Alert

Thursday 1 July 2021

CURRENCIES	Spot	6mths
NZD/USD	0.6990	-0.0006
NZD/AUD	0.9319	-0.0015
NZD/JPY	77.65	-0.23
NZD/EUR	0.5894	-0.0029
NZD/GBP	0.5054	-0.0007
NZD/CNH	4.5211	0.0539
AUD/USD	0.7501	0.0006
AUD/EUR	0.6325	-0.0021
EUR/USD	1.1859	0.0049
USD/CNH	6.4678	0.0824
GBP/USD	1.3832	0.0009
EUR/GBP	0.8574	0.0030

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.10%
90 day bills	0.35%	0.03%
2 year swap	0.78%	0.27%
10 year Govt	1.77%	1.53%

All quiet at the half year

As we move into the second half of 2021, the half year close was uneventful, although there were a few interesting comments.

US data printed strongly overnight with the ADP employment report showing 692,000 private hires in June, which was below May's adjusted 886,000, but higher than the forecast of 600,000. Likewise, there was a strong surge in pending house sales, which were up an incredible 8.0% on the month and 13.9% on the year. Perhaps it is time the Fed

considered cutting back on its USD40 billion of monthly mortgage-backed bond purchases!

And right on cue, Dallas Fed President, Robert Kaplan, stated that the Fed had learned a number of lessons from its tapering of its asset purchases in 2013, and it will run more smoothly this time around because investors already know that a move is being discussed. On a side note, he hopes tapering will start "soon."

Federal Reserve Governor, Christopher Waller, was even more forceful, stating *"the housing market is on fire. We should think carefully about doing MBS purchases, and, if we were to taper those first, that wouldn't necessarily be a big issue."* He then moved on to interest rate hikes, adding *"the unemployment rate would have to drop fairly substantially, or inflation would have to really continue at a very high rate, before we would take seriously a rate hike in 2022, but I'm not ruling it out. Inflation for the next few months will be running way above our target (but) if you think you may need to raise rates by end-2022 or early 2023, you need to get tapering done before then."*

New Zealand business confidence fell back -0.6% from the previous month's 1.8 gain, although the own activity outlook improved to 31.6 from 27.1. Most striking was that inflation pressures remain embedded in the system with a net 84.0% of retailers intending to raise

their prices in the next three months. In Australia, private sector credit for May increased 0.4% on the month.

Chinese official PMIs for June saw both sectors contract, but not as much as forecast after manufacturing headlined at 50.9 against a 50.8 forecast, while services printed at 53.5 against the expected 52.7. Ultimately this means that the recent lockdowns in the industrial hub of Guangdong have not been as bad as first feared.

To summarise

So, with the strong US data, concerns over the spread of the infectious Delta variant, and increasing talk of Fed tapering, the USD Index rallied to a 3 month high having gained 2.5% in June. This saw the Euro and the AUD ease, although the NZD was unchanged on the side-lines. European equities and the Nasdaq were lower, although the Dow and S&P made solid gains, while the 10-year US yield eased to 1.45%.

In amongst this, one of the local banks has warned the *"NZD weakness continues to look fundamentally unjustified given the backdrop of rising commodity prices and the higher NZ-global rate spread"*, but we think they may be missing a few key points here!



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Daily Rates

Thursday 1 July 2021

FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	73.76					CAD	0.8662	0.9295
NZD/USD	0.6990	0.0000	-0.0002	-0.0006	-0.0021	CHF	0.6467	0.6940
NZD/AUD	0.9319	-0.0002	-0.0006	-0.0015	-0.0036	CNY	4.5091	4.8386
NZD/JPY	77.65	-0.02	-0.08	-0.23	-0.55	DKK	4.3830	4.7033
NZD/EUR	0.5894	-0.0004	-0.0013	-0.0029	-0.0064	FJD	1.4455	1.5511
NZD/GBP	0.5054	-0.0001	-0.0002	-0.0007	-0.0018	HKD	5.4272	5.8238
						KRW	787.27	844.80
AU TWI	62.70					MYR	2.8985	3.1103
AUD/USD	0.7501	0.0001	0.0003	0.0006	0.0007	NOK	6.0182	6.4579
AUD/NZD	1.0731	0.0002	0.0007	0.0017	0.0042	SEK	5.9798	6.4167
AUD/JPY	83.33	-0.01	-0.03	-0.11	-0.27	SGD	0.9399	1.0086
AUD/EUR	0.6325	-0.0003	-0.0010	-0.0021	-0.0045	TWD	19.45	20.87
AUD/GBP	0.5423	0.0000	0.0001	0.0001	0.0001	ZAR	9.9810	10.7103
USD Index	92.34							
EUR/USD	1.1859	0.0008	0.0023	0.0049	0.0095	EQUITIES		
USD/JPY	111.10	-0.03	-0.09	-0.23	-0.47			Index
GBP/USD	1.3832	0.0001	0.0003	0.0009	0.0009	NZX50		12,655
EUR/GBP	0.8574	0.0005	0.0015	0.0030	0.0063	ASX200		7,313
						Dow Jones		34,503
						S&P 500		4,299
						FTSE100		7,037
						DAX 30		15,531
						Nikkei		28,792
						COMMODITIES		
								USD
						Dubai Light		72.97
						Brent Crude		74.61
						Gold		1,769.78
						Silver		26.12
						CRB Index		226.78

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	0.37%	0.33%	0.05%	0.01%
FRA 90d in 3mths	0.42%	0.39%	0.07%	0.04%
FRA 180d in 6mths	0.64%	0.61%	0.15%	0.14%
1 year swap	0.50%	0.48%	0.09%	0.07%
2 year swap	0.79%	0.77%	0.28%	0.25%
3 year swap	1.01%	0.99%	0.49%	0.48%
5 year swap	1.36%	1.34%	0.90%	0.86%
10 year swap	1.88%	1.86%	1.59%	1.57%
10 year Govt bond		1.75%		1.53%

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