

Market Alert

Wednesday 25 August 2021

CURRENCIES	Spot	6mths
NZD/USD	0.6949	-0.0013
NZD/AUD	0.9578	-0.0028
NZD/JPY	76.20	-0.30
NZD/EUR	0.5910	-0.0035
NZD/GBP	0.5061	-0.0012
NZD/CNH	4.4974	0.0557
AUD/USD	0.7255	0.0007
AUD/EUR	0.6171	-0.0019
EUR/USD	1.1756	0.0048
USD/CNH	6.4729	0.0927
GBP/USD	1.3730	0.0007
EUR/GBP	0.8563	0.0031

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.10%
90 day bills	0.39%	0.02%
2 year swap	1.23%	0.21%
10 year Govt	1.73%	1.15%

Stating the obvious

New Zealand Finance Minister, Grant Robertson, speaking to the Parliamentary Finance and Expenditure Committee, said that the economy was well positioned going into the lockdowns with unemployment at 4.0% and lower than expected net debt.

Treasury CEO, Caralee McLiesh, then added house prices had not fallen as much as the Treasury had forecast, but they were expected to slow over time as more construction, low population growth, RMA reforms and tax changes would all contribute to house price growth "alleviating in the coming months."

Later in the day, in a classic case of 'my-dad-told-me-to-say-this,' the Deputy RBNZ Governor, Christian Hawkesby, confirmed that the real reason they did not raise the OCR last week was "because of communication difficulties rather than economic risks, that policymakers had considered a 50 point hike, and that future policy decisions were not going to be tightly linked to lockdowns." What did that Tui's ad say... "Yeah, right!" With comments like this its understandable that alcohol spending jumped nearly 500% on eve of alert level 4 while NZ Q2 retail sales were up +3.3% on the quarter and +33.3% on the year due to the 2020 lockdowns.

While I'm not sure what the 'communication difficulties' were, possibly Mr Orr had his mobile on silent, but Mr Hawkesby's comments saw the NZD outperform overnight, with further support found as commodity prices recovered with demand concerns easing after China reported no new COVID-19 cases and the US FDA granted full approval of the Pfizer/BioNTech COVID-19 vaccines. This saw the futures market also turn with pricing for an RBNZ October hike now at 60%, up from 48% yesterday, while equity markets were all in green territory and the 10 year treasury yield firmed to 1.29%.

In Australia, Goldman Sachs are forecasting a substantial Q3 contraction as, "GDP is likely to fall 2% in Q3 from the previous period, driven by weaker household

consumption and construction activity. The economy is then expected to expand at 1.8% in Q4." Morgan Stanley then chimed in on the AUD, stating "We remain neutral on AUD/USD but continue to turn more constructive on the crosses. We continue to see AUD/NZD upside targeting 1.08." And right on cue, Australia announced it is already planning a third booster vaccine shot.

In Europe, German GDP expanded at +1.6% in Q2, which was slightly more than 1.5% in the preliminary estimate, while the Bundesbank warned any virus resurgence may put an unexpected strain on the economy as "Growth could undershoot projections this year. That will likely weigh on full-year figure growth as well."

China's new strategy

China's rulers have a new catch-phrase, "cross-cyclical economic policy strategy." While no one is quite sure what it means, the theory is that fiscal and monetary policy becomes more responsive. This is different to the traditional 'counter-cyclical policy,' which is adding stimulus when the economy slows and withdrawing it as the economy speeds up, with 'cross-cyclical' intervention acting pre-emptively, moving sooner and more incrementally.

RIP Charlie, you were one cool dude, and the Stones just won't be the same!

Stay safe, keep on smiling, and hey, let's be careful out there!



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Daily Rates

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FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	74.08					CAD	0.8754	0.9140
NZD/USD	0.6949	0.0000	-0.0004	-0.0013	-0.0048	CHF	0.6342	0.6622
NZD/AUD	0.9578	-0.0002	-0.0009	-0.0028	-0.0080	CNY	4.4964	4.6947
NZD/JPY	76.20	-0.02	-0.09	-0.30	-0.83	DKK	4.3953	4.5892
NZD/EUR	0.5910	-0.0004	-0.0014	-0.0035	-0.0087	FJD	1.4643	1.5289
NZD/GBP	0.5061	0.0000	-0.0003	-0.0012	-0.0035	HKD	5.4110	5.6497
						KRW	810.02	845.75
AU TWI	60.70					MYR	2.9240	3.0529
AUD/USD	0.7255	0.0001	0.0003	0.0007	0.0010	NOK	6.1367	6.4074
AUD/NZD	1.0441	0.0002	0.0010	0.0030	0.0088	SEK	6.0417	6.3082
AUD/JPY	79.56	-0.01	-0.03	-0.08	-0.20	SGD	0.9413	0.9828
AUD/EUR	0.6171	-0.0003	-0.0009	-0.0019	-0.0040	TWD	19.41	20.27
AUD/GBP	0.5284	0.0000	0.0001	0.0003	0.0007	ZAR	10.4338	10.8941
USD Index	92.90							
EUR/USD	1.1756	0.0007	0.0021	0.0048	0.0094	EQUITIES		
USD/JPY	109.68	-0.02	-0.08	-0.22	-0.44		Index	
GBP/USD	1.3730	0.0001	0.0002	0.0007	0.0001	NZX50	13,072	
EUR/GBP	0.8563	0.0005	0.0014	0.0031	0.0068	ASX200	7,503	
						Dow Jones	35,376	
						S&P 500	4,491	
						FTSE100	7,126	
						DAX 30	15,906	
						Nikkei	27,732	
						COMMODITIES		
							USD	
						Dubai Light	67.82	
						Brent Crude	71.20	
						Gold	1,803.82	
						Silver	23.88	
						CRB Index	228.61	

INTEREST RATES	New Zealand		Australia	
	Borrow	Invest	Borrow	Invest
30 day bank bills	0.30%	0.26%	-0.01%	0.02%
90 day bank bills	0.41%	0.37%	0.04%	0.00%
FRA 90d in 3mths	0.86%	0.83%	0.04%	0.01%
FRA 180d in 6mths	1.27%	1.16%	0.09%	0.08%
1 year swap	0.92%	0.89%	0.06%	0.04%
2 year swap	1.25%	1.22%	0.22%	0.20%
3 year swap	1.42%	1.40%	0.41%	0.40%
5 year swap	1.62%	1.59%	0.74%	0.69%
10 year swap	1.92%	1.90%	1.31%	1.30%
10 year Govt bond		1.71%		1.15%

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