

Market Alert

Friday 8 October 2021

CURRENCIES	Spot	6mths
NZD/USD	0.6935	-0.0018
NZD/AUD	0.9486	-0.0032
NZD/JPY	77.41	-0.34
NZD/EUR	0.6003	-0.0040
NZD/GBP	0.5092	-0.0012
NZD/CNH	4.4763	0.0526
AUD/USD	0.7311	0.0005
AUD/EUR	0.6328	-0.0021
EUR/USD	1.1554	0.0046
USD/CNH	6.4550	0.0930
GBP/USD	1.3621	-0.0003
EUR/GBP	0.8482	0.0036

INT RATES	NZ	Australia
OCR/Cash	0.50%	0.10%
90 day bills	0.66%	0.02%
2 year swap	1.42%	0.33%
10 year Govt	2.09%	1.59%

Transitory comments and a two month extension

The minutes from the ECB's September meeting gave some interesting insights into the central banks changing inflation assessment and discussions on tapering its Pandemic Emergency Purchase Programme (PEPP).

While the ECB lifted its growth and inflation forecasts, members still favoured this year's surge in Eurozone inflation as transitory. Although, the minutes acknowledged that both headline and core inflation had surprised to the upside which

had "raised doubts about how well the models relied on the projections that were able to capture what was currently happening in the economy." Regarding the monthly PEPP purchases, there were calls for both a more substantial and a more prudent reduction. Arguments in favour of a more substantial reduction were based on improved financing conditions and an improved economic outlook, while arguments in favour of a more prudent reduction were that the impression of tapering should be avoided.

Post the release of the minutes, the ECB's chief economist, Philip Lane, was also on the news wires stating "There will be headwinds from fiscal policy and the energy shock. There are very solid reasons to believe that there's significant transitory components in the rise in inflation. We still see medium term inflation well below target. We have to look through the energy-driven surge in pricing. We're seeing no wage pressures."

In the US, the number of Americans filing new jobless claims eased from last week's 7 week high to 326,000, below market expectations of 348,000, although US-based employers also announced 17,895 of job cuts in September.

Fed member, Loretta Mester, announced that "Policymakers need to figure out how much of inflation is driven by the supply side. Much of inflation this year has been driven by components related to the pandemic that may not lead to inflation to continue rising."

The real action is taking place in the bond markets where investors are piling back into short positions, not only on the spectre of inflation but also on the view that yields are approaching levels which will unleash a wave of convexity related selling. This saw the 10 year rise to the 1.57%, although the US dollar wasn't a beneficiary as the 'risk-on' environment saw the NZD and AUD solidify gains from yesterday's lows. Interestingly, the EUR continues to struggle. Equity markets made solid gains, with most bourses up 1.0%-2.0%, after Senate leaders kicked the debt can down the road by agreeing a deal to raise the government debt ceiling by USD480 billion, which should stave off a default until 3 December.

The shorts

Australian services PMIs were barely changed in September, up 0.1 to 45.7

One of the local banks have revised their farmgate milk price forecast for its 2021-22 season by 50c to NZD8.20/kg MS.

Bank of Japan Governor, Haruhiko Kuroda, says he expects core CPI to pick up gradually to eventually hit its 2.0% target.

JP Morgan is maintaining its bullish call on US equities and commodities, although they are bearish on the USD

Stay safe, enjoy life one picnic at a time, 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	74.10					CAD	0.8706	0.9178
NZD/USD	0.6935	-0.0002	-0.0007	-0.0018	-0.0056	CHF	0.6442	0.6791
NZD/AUD	0.9486	-0.0004	-0.0014	-0.0032	-0.0085	CNY	4.4692	4.7116
NZD/JPY	77.41	-0.04	-0.15	-0.34	-0.92	DKK	4.4662	4.7084
NZD/EUR	0.6003	-0.0005	-0.0019	-0.0040	-0.0096	FJD	1.4564	1.5354
NZD/GBP	0.5092	-0.0002	-0.0007	-0.0012	-0.0030	HKD	5.3984	5.6912
						KRW	825.72	870.51
AU TWI	61.30					MYR	2.8965	3.0536
AUD/USD	0.7311	0.0001	0.0004	0.0005	0.0007	NOK	5.9526	6.2754
AUD/NZD	1.0542	0.0004	0.0016	0.0035	0.0096	SEK	6.0931	6.4236
AUD/JPY	81.61	-0.01	-0.04	-0.09	-0.24	SGD	0.9422	0.9933
AUD/EUR	0.6328	-0.0003	-0.0011	-0.0021	-0.0044	TWD	19.37	20.42
AUD/GBP	0.5368	0.0000	0.0001	0.0005	0.0017	ZAR	10.3773	10.9401
USD Index	94.21					EQUITIES		
EUR/USD	1.1554	0.0007	0.0025	0.0046	0.0093		Index	
USD/JPY	111.63	-0.03	-0.11	-0.20	-0.44	NZX50	13,105	
GBP/USD	1.3621	0.0001	0.0004	-0.0003	-0.0029	ASX200	7,257	
EUR/GBP	0.8482	0.0005	0.0016	0.0036	0.0087	Dow Jones	34,820	
						S&P 500	4,406	
						FTSE100	7,078	
						DAX 30	15,251	
						Nikkei	27,678	
INTEREST RATES		New Zealand		Australia		COMMODITIES		
		Borrow	Invest	Borrow	Invest		USD	
30 day bank bills		0.55%	0.51%	0.01%	0.02%	Dubai Light	78.20	
90 day bank bills		0.68%	0.65%	0.04%	0.00%	Brent Crude	82.13	
FRA 90d in 3mths		0.97%	0.94%	0.07%	0.04%	Gold	1,756.13	
FRA 180d in 6mths		1.38%	1.34%	0.19%	0.18%	Silver	22.60	
1 year swap		1.10%	1.07%	0.11%	0.07%	CRB Index	246.83	
2 year swap		1.43%	1.41%	0.35%	0.31%		NZD	
3 year swap		1.63%	1.61%	0.61%	0.56%	NZ Carbon	64.50	
5 year swap		1.86%	1.84%	1.00%	0.99%			
10 year swap		2.23%	2.21%	1.72%	1.71%			
10 year Govt bond			2.07%		1.59%			

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