

Market Alert

Tuesday 17 May 2022

CURRENCIES	Spot	6mths
NZD/USD	0.6309	-0.0014
NZD/AUD	0.9056	-0.0040
NZD/JPY	81.42	-1.06
NZD/EUR	0.6048	-0.0080
NZD/GBP	0.5122	-0.0022
NZD/CNH	4.2885	0.0084
AUD/USD	0.6967	0.0015
AUD/EUR	0.6679	-0.0061
EUR/USD	1.0431	0.0117
USD/CNH	6.7977	0.0280
GBP/USD	1.2316	0.0027
EUR/GBP	0.8469	0.0077

INT RATES	NZ	Australia
OCR/Cash	1.50%	0.35%
90 day bills	2.06%	0.97%
2 year swap	3.52%	2.96%
10 year Govt	3.54%	3.38%

China contraction concerns

It was always going to be a tough day for financial markets, following the grim data releases from China, but even after acknowledging that some of China's largest cities are in lockdowns, the data pulse was unquestionably weak.

Retail sales fell a massive 11.1% in April, while the unemployment rate rose to 6.1% (up from 5.0% this time last year). Loan growth slumped to the lowest level in almost five years, another timely reminder that the residential property is facing significant confidence issues.

Industrial output also unexpectedly fell 2.9% in April from a year ago.

Markets responded to the grim tidings by selling everything from Chinese shares to the AUD. China's benchmark equity index closed 0.8% lower and the onshore yuan weakened against the USD while doing the same against both the NZD and AUD.

It is clear to see China's economy is taking a severe hit from the government's stringent zero-tolerance COVID-19 approach. This put China's GDP growth target of 5.5% further out of reach. Some are now predicting a GDP contraction, which would be the first since February 2020.

More government support measures will be expected, with the rise in unemployment being a particular worry. Last week the People's Bank of China said it would allow banks to reduce mortgage rates by up to 20 basis points for first home buyers in order to help housing sales. This measure comes hot on the heels of yet another bond default by a major Chinese property developer.

As the economic data turns, market pessimism is growing, and starting to price the risk of global recession. The latest Chinese data suggests China could be leading the way, followed by Europe and the US, down the track. Make sure to fasten your seatbelt, it's going to be a bumpy ride!

Markets consolidate

US equities started strongly, with the Dow gaining as much as 300 points and the S&P 0.3% but managed to lose steam as the session progressed. The benchmark US 10 year Treasury yield eased 3 basis points to 2.88%, down from a 3.20% earlier this month.

Following strong growth, business activity declined in New York, according to the May 2022 Empire State Manufacturing Survey. The headline index dropped thirty-six points to -11.6. New orders declined, and shipments fell at the same pace as the 2020 pandemic. Delivery times continue to lengthen, and inventories expanded.

In Japan, producer prices surged to 10.0% in April from a year ago. Rising at a record rate as the Ukraine crisis and weak yen continues to push up cost of energy and raw materials.

The March to April rise was 14.4% at an annualised rate, so this shift up appears to be accelerating. Japanese firms are now facing the prospect of either absorbing costs at the expense of profits or passing cost increases on to highly sensitive households. CPI data out of Japan this Friday is expected to hit 2.0%, meeting the Bank of Japan's target after years of deflation. The wild ride that is the JPY continues, with the NZD/JPY opening near 81.50 and the AUD/JPY near 90.00.



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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	70.75					CAD	0.8105	0.8951
NZD/USD	0.6309	-0.0003	-0.0007	-0.0014	-0.0026	CHF	0.6323	0.6982
NZD/AUD	0.9056	-0.0008	-0.0023	-0.0040	-0.0049	CNY	4.2871	4.7353
NZD/JPY	81.42	-0.13	-0.43	-1.06	-2.53	DKK	4.5016	4.9710
NZD/EUR	0.6048	-0.0012	-0.0037	-0.0080	-0.0172	FJD	1.3766	1.5226
NZD/GBP	0.5122	-0.0002	-0.0009	-0.0022	-0.0055	HKD	4.9530	5.4690
						KRW	808.39	892.71
AU TWI	61.70					MYR	2.7635	3.0532
AUD/USD	0.6967	0.0003	0.0010	0.0015	0.0007	NOK	6.1676	6.8104
AUD/NZD	1.1043	0.0010	0.0028	0.0049	0.0060	SEK	6.3435	7.0047
AUD/JPY	89.91	-0.06	-0.25	-0.78	-2.40	SGD	0.8782	0.9700
AUD/EUR	0.6679	-0.0007	-0.0024	-0.0061	-0.0158	TWD	18.78	20.74
AUD/GBP	0.5657	0.0003	0.0004	0.0000	-0.0032	ZAR	10.20	11.26
USD Index	104.25					EQUITIES		
EUR/USD	1.0431	0.0015	0.0052	0.0117	0.0262		Index	
USD/JPY	129.06	-0.14	-0.54	-1.39	-3.55	NZX50	11,158	
GBP/USD	1.2316	0.0000	0.0008	0.0027	0.0082	ASX200	7,093	
EUR/GBP	0.8469	0.0012	0.0037	0.0077	0.0155	Dow Jones	32,197	
						S&P 500	4,009	
INTEREST RATES		New Zealand		Australia		FTSE100	7,465	
		Mid		Mid		DAX 30	13,964	
30 day bank bills		1.73%		0.34%		Nikkei	26,547	
90 day bank bills		2.06%		0.97%		COMMODITIES		
1 year swap		3.07%		2.38%			USD	
2 year swap		3.52%		2.96%		Brent Crude	113.86	
3 year swap		3.64%		3.13%		Gold	1,825.76	
5 year swap		3.67%		3.43%		Silver	21.61	
10 year swap		3.80%		3.63%		Iron Ore	124.50	
3 year Govt bond		3.26%		2.83%		CRB Index	328.60	
5 year Govt bond		3.38%		3.06%			NZD	
10 year Govt bond		3.58%		3.38%		NZ Carbon	76.60	

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