

Market Alert

Wednesday 18 May 2022

CURRENCIES	Spot	6mths
NZD/USD	0.6356	-0.0013
NZD/AUD	0.9056	-0.0036
NZD/JPY	82.23	-1.08
NZD/EUR	0.6027	-0.0080
NZD/GBP	0.5094	-0.0020
NZD/CNH	4.2853	0.0065
AUD/USD	0.7019	0.0014
AUD/EUR	0.6655	-0.0062
EUR/USD	1.0546	0.0119
USD/CNH	6.7419	0.0245
GBP/USD	1.2477	0.0023
EUR/GBP	0.8453	0.0080

INT RATES	NZ	Australia
OCR/Cash	1.50%	0.35%
90 day bills	2.09%	1.00%
2 year swap	3.59%	3.07%
10 year Govt	3.60%	3.40%

Persistent inflation prompts Central Banks

During an interview with the Wall Street Journal, Fed Chair, Jerome Powell, said "the Federal Reserve will not hesitate to keep raising rates until inflation falls in a clear and convincing way." Powell added that "if that involves moving past broadly understood levels of neutral, we won't hesitate" and noted that the US economy is strong and well positioned to withstand less accommodative monetary policy and tighter monetary policy.

Recently, The Federal Reserve raised the target for the fed funds rate by half a

point to 0.75%-1.0% during its May 2022 meeting, which is the second consecutive rate hike and the biggest rise in borrowing costs since 2000.

Retail sales in the United States rose 0.9% month on month in April, following an upwardly 1.4% in March and in line with expectations. Interestingly, this shows that American consumers continue to spend despite record high levels of inflation, although it was the smallest gain in retail sales in four months. For the year to April spending was up 8.2%, which is a fourth consecutive monthly increase. US industrial production came in strongly, up 5.8%.

Over in Australia, RBA meeting minutes from 3 May noted that a larger increase in the cash rate than the 0.25% rise was seriously considered. "An argument for an increase of 40 basis points could be made given the upside risks to inflation and the current very low level of interest rates. However, members agreed that the preferred option was 25 basis points. A move of this size would help signal that the board was now returning to normal operating procedures after the extraordinary period of the pandemic."

The fact that the central bank gave serious consideration to a bigger rate hike has increased expectations of a 0.40% rise in June to take the cash rate to 0.75%. Australian wage data out later today may provide the RBA ammunition to follow through with this larger than normal rate hike.

It was yet another decline in prices at the Global Dairy Trade auction, with the overall index down 2.9% in USD terms and 1.6% in NZD terms from the previous event, for its fifth consecutive decline. Whole milk powder was the biggest loser down 4.9%, on top of the 6.5% decline two auctions ago. Butter fell 1.0% and skim milk powder was down 0.6%. This most recent auction means that prices are now down 15.0% from the mid-March peak.

Markets follow results

Equity markets were strong across the board yesterday and overnight with the S&P up 2.0% and European markets up 1.5% respectively. US markets gains were driven by a slew of upbeat earnings results and strong retail sales and industrial production data. Stocks briefly cut some gains after Chairman, Jerome Powell, reinforced the Fed will keep raising rates until inflation comes down, while also saying the economy is strong.

Commodities were a mixed bag while gold firmed slightly and oil coming off to just under US\$110/bbl.

In FX markets, the NZD opened today firmer against the US dollar, now at 0.6360 and a 70 basis points rise however the NZD/AUD was little changed at 0.9060, meanwhile the NZD/EUR fell to 0.6030.



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Daily Rates

Wednesday 18 May 2022

FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	71.21					CAD	0.8150	0.8999
NZD/USD	0.6356	-0.0003	-0.0007	-0.0013	-0.0025	CHF	0.6317	0.6977
NZD/AUD	0.9056	-0.0009	-0.0023	-0.0036	-0.0041	CNY	4.2821	4.7287
NZD/JPY	82.23	-0.13	-0.43	-1.08	-2.59	DKK	4.4853	4.9525
NZD/EUR	0.6027	-0.0012	-0.0037	-0.0080	-0.0170	FJD	1.3821	1.5262
NZD/GBP	0.5094	-0.0003	-0.0009	-0.0020	-0.0051	HKD	4.9892	5.5087
						KRW	805.31	889.39
AU TWI	62.50					MYR	2.7880	3.0779
AUD/USD	0.7019	0.0003	0.0009	0.0014	0.0001	NOK	6.1549	6.7960
AUD/NZD	1.1042	0.0010	0.0028	0.0044	0.0050	SEK	6.3081	6.9657
AUD/JPY	90.80	-0.05	-0.26	-0.83	-2.55	SGD	0.8801	0.9718
AUD/EUR	0.6655	-0.0006	-0.0024	-0.0062	-0.0160	TWD	18.79	20.75
AUD/GBP	0.5625	0.0003	0.0004	0.0001	-0.0033	ZAR	10.12	11.18
USD Index	103.39					EQUITIES		
EUR/USD	1.0546	0.0015	0.0053	0.0119	0.0263		Index	
USD/JPY	129.37	-0.14	-0.55	-1.43	-3.66	NZX50	11,138	
GBP/USD	1.2477	0.0000	0.0007	0.0023	0.0075	ASX200	7,113	
EUR/GBP	0.8453	0.0012	0.0037	0.0080	0.0159	Dow Jones	32,223	
						S&P 500	4,077	
						FTSE100	7,518	
						DAX 30	14,186	
						Nikkei	26,660	
INTEREST RATES		New Zealand		Australia				
		Mid		Mid				
30 day bank bills		1.75%		0.37%				
90 day bank bills		2.09%		1.00%				
1 year swap		3.14%		2.49%				
2 year swap		3.59%		3.07%				
3 year swap		3.69%		3.23%				
5 year swap		3.71%		3.53%				
10 year swap		3.84%		3.73%				
3 year Govt bond		3.32%		2.87%				
5 year Govt bond		3.44%		3.09%				
10 year Govt bond		3.64%		3.40%				
						COMMODITIES		
							USD	
						Brent Crude	111.77	
						Gold	1,816.32	
						Silver	21.60	
						Iron Ore	127.00	
						CRB Index	336.08	
							NZD	
						NZ Carbon	76.60	

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