

Market Alert

Tuesday 21 June 2022

CURRENCIES	Spot	6mths
NZD/USD	0.6332	-0.0025
NZD/AUD	0.9107	-0.0036
NZD/JPY	85.51	-1.62
NZD/EUR	0.6024	-0.0109
NZD/GBP	0.5164	-0.0039
NZD/CNH	4.2352	-0.0159
AUD/USD	0.6952	-0.0001
AUD/EUR	0.6613	-0.0094
EUR/USD	1.0509	0.0140
USD/CNH	6.6889	0.0022
GBP/USD	1.2254	0.0040
EUR/GBP	0.8573	0.0081

INT RATES	NZ	Australia
OCR/Cash	2.00%	0.85%
90 day bills	2.82%	1.89%
2 year swap	4.46%	4.00%
10 year Govt	4.26%	4.16%

It was a quiet Monday, but what a month

With all the recent market volatility and poor economic data, yesterday was relatively subdued by comparison — helped by the United States Juneteenth holiday. It is worth noting that over the last month there have been substantial market moves.

The S&P 500 Index has fallen approximately 11.5% over the past month and is down to its lowest level in more than a year. Meanwhile, the US Dollar Index has surged to an all-time high as markets aggressively bought the safe-haven USD.

These market moves have been a product of multiple economic drivers, the predominant driver being persistently high levels of inflation, which central banks globally had failed to forecast. The response has largely been aggressive contractionary monetary policy, with the Federal Reserve last week hiking rates by 0.75%, its largest increase since 1994. The consensus among central banks has been that controlling inflation is the main priority and as a result, yield curves have adjusted accordingly.

Overnight, both the NZD and AUD were relatively stable against the US dollar. At the time of writing, the NZD was at 0.6330, up approximately 20 points on yesterdays close, it was a similar story for the AUD.

On the data front, construction output in the Euro area has increased at its slowest pace since December. On a monthly basis, construction output fell by 1.1%, compared to a 0.1% rise in March, the first decline in four months.

Iron ore prices also started the week on the back foot, plunging almost 8.0% and losing its gains for the year. There is growing pessimism over the demand outlook in China, with a raft of supportive policy measures from Beijing so far failing to prop up the construction sector. Moves by China to set up a centralised iron ore buyer by the end of the year are also a signal that the heady days of record ore prices have passed.

Line in the sand for the Bank of Japan

While most central banks are pulling out all the stops to bring inflation back under control, the Bank of Japan (“BoJ”) remains an important outlier. Last week’s policy meeting saw the BoJ double down on its ultra-loose policy stance, with unprecedented bond buying helping to drag benchmark interest rate yields back below their closely watched ceiling. The Japanese 10-year government bond yield is at 0.23% this morning after the central bank ramped up bond buying, as the benchmark yield breached its 0.25% central bank-imposed tolerance limit. Data showed the BoJ spent JPY10.9 trillion (USD81 billion) defending the ceiling last week alone, amidst an intensifying global tightening cycle.

The perseverance of this low interest rate policy is glaringly obvious in currency markets, with the yen at its weakest level against the USD in decades. Market scepticism over the BoJ’s continued policy approach is building, setting up a battle of wills between the central bank and markets. A smooth policy transition seems unlikely, setting the scene for significant yen volatility. While important for yen direction, any capitulation by the BoJ would also have big implications on global investment flows, with Japan’s largest investors underpinning demand for US treasuries.



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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	71.20					CAD	0.8223	0.9029
NZD/USD	0.6332	-0.0003	-0.0011	-0.0025	-0.0042	CHF	0.6128	0.6731
NZD/AUD	0.9107	-0.0006	-0.0020	-0.0036	-0.0041	CNY	4.2435	4.6661
NZD/JPY	85.51	-0.19	-0.68	-1.62	-3.74	DKK	4.4808	4.9195
NZD/EUR	0.6024	-0.0014	-0.0049	-0.0109	-0.0201	FJD	1.3676	1.5015
NZD/GBP	0.5164	-0.0005	-0.0017	-0.0039	-0.0077	HKD	4.9706	5.4573
						KRW	817.94	898.02
AU TWI	62.30					MYR	2.7861	3.0589
AUD/USD	0.6952	0.0001	0.0002	-0.0001	-0.0026	NOK	6.2665	6.8801
AUD/NZD	1.0974	0.0005	0.0020	0.0036	0.0040	SEK	6.4077	7.0351
AUD/JPY	93.88	-0.15	-0.55	-1.43	-3.72	SGD	0.8790	0.9651
AUD/EUR	0.6613	-0.0012	-0.0041	-0.0094	-0.0193	TWD	18.81	20.65
AUD/GBP	0.5670	-0.0002	-0.0008	-0.0022	-0.0060	ZAR	10.16	11.15
USD Index	104.51					EQUITIES		
EUR/USD	1.0509	0.0020	0.0066	0.0140	0.0269		Index	
USD/JPY	135.04	-0.23	-0.83	-2.07	-4.94	NZX50	10,588	
GBP/USD	1.2254	0.0004	0.0018	0.0040	0.0077	ASX200	6,433	
EUR/GBP	0.8573	0.0012	0.0039	0.0081	0.0156	Dow Jones	29,889	
						S&P 500	3,675	
INTEREST RATES		New Zealand		Australia		FTSE100	7,122	
		Mid		Mid		DAX 30	13,266	
30 day bank bills		2.28%		1.08%		Nikkei	25,771	
90 day bank bills		2.82%		1.89%		COMMODITIES		
1 year swap		4.08%		3.51%			USD	
2 year swap		4.46%		4.00%		Brent Crude	114.21	
3 year swap		4.49%		4.11%		Gold	1,838.65	
5 year swap		4.45%		4.15%		Silver	21.58	
10 year swap		4.44%		4.32%		Iron Ore	135.69	
3 year Govt bond		3.97%		3.62%		CRB Index	329.50	
5 year Govt bond		4.08%		3.88%			NZD	
10 year Govt bond		4.26%		4.16%		NZ Carbon	76.50	

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