

# Market Alert

Thursday 28 July 2022

CURRENCIES	Spot	6mths
NZD/USD	0.6260	-0.0014
NZD/AUD	0.8954	-0.0037
NZD/JPY	85.47	-1.78
NZD/EUR	0.6134	-0.0105
NZD/GBP	0.5148	-0.0037
NZD/CNH	4.2217	-0.0268
AUD/USD	0.6990	0.0012
AUD/EUR	0.6849	-0.0087
EUR/USD	1.0202	0.0146
USD/CNH	6.7442	-0.0285
GBP/USD	1.2158	0.0054
EUR/GBP	0.8390	0.0075

  

INT RATES	NZ	Australia
OCR/Cash	2.50%	1.35%
90 day bills	3.19%	2.34%
2 year swap	3.93%	3.21%
10 year Govt	3.59%	3.31%

## The Fed knows where it's going

... it just doesn't know whether it's there yet!

The Federal Reserve raised the Fed funds target range by a further 75bps to 2.25-2.50%, making it a cumulative 225bp of rate hikes so far this year, but with recessionary risks mounting, and inflation set to fall sharply in 2023, the potential for rate cuts in 2023 is rapidly becoming the core discussion point.

With a further 1.00% of rate hikes priced in for 2022, the mixed tone of the

statement suggested the members may be at a reflection point given that *"recent indicators of spending and production have softened"* although *"job gains have been robust."* That said, the members remain, *"highly attentive to inflation risks"* and anticipate that *"ongoing increases in the target rate will be appropriate."* The Fed will continue to run down its balance sheet with the committee remaining *"strongly committed"* to returning inflation to its 2% target.

In the Q&A, Fed Chair, Jerome Powell, highlighted that the central bank could eventually moderate the magnitude of its rate increases once assured that inflation was at or near its peak, or if there was a dramatic economic slowdown, stating that *"As the stance of monetary policy tightens further, it likely will become appropriate to slow the pace of increases while we assess how our cumulative policy adjustments are affecting the economy and inflation."*

Powell then added *"while another unusually large increase could be appropriate at our next meeting, that decision will depend on the data that we get between now and then."*

Conversely, a further 75bps rate hike may be appropriate in September, even though it would be an *"unusually large"* move. In terms of forward guidance, Jerome added the Fed needs to get policy to a *"modestly restrictive"* stance, suggesting that the 3.25%-3.50% rate

implied by the dot-plot projections were broadly appropriate.

As to whether the US will enter a recession *"We know that the path has clearly narrowed. Price stability is the bedrock of the economy. We can't have a strong labour market without price stability."*

US equity markets welcomed the news that the Fed may be contemplating a slowdown to its hiking cycle, with the Dow firming 1.4%, while the S&P and NASDAQ surged 2.6% and 4.0% respectively. The equity correlation supported the NZD, AUD, and EUR, which all made decent gains, while the NZD/AUD reached a five year low at 0.8911. Bond yields naturally eased back, with the T-bond at 2.78%, but don't worry ... inflation hasn't disappeared, as commodity markets also rallied strongly.

Interestingly, the Fed hike has put the benchmark US rate above China's seven day repo rate, which fell below 1.00% yesterday. It has been reported that Chinese spies tried to infiltrate the Fed to get sensitive information and influence the central bank!

While there is no question that the RBA will hike rates at its meeting next week. The fact that Q2 CPI rose 1.8%, taking the annualised inflation rate to 6.1%, suggests 75bps is off the table, with 50bps locked in.

Expect financial markets to remain volatile as they await tonight's US GDP data, which could confirm a US recession.



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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	0.8027	0.8965
NZD/USD	0.6260	-0.0001	-0.0006	-0.0014	-0.0042	CHF	0.6003	0.6704
NZD/AUD	0.8954	-0.0007	-0.0020	-0.0037	-0.0056	CNY	4.1909	4.6781
NZD/JPY	85.47	-0.23	-0.75	-1.78	-3.64	DKK	4.5670	5.0996
NZD/EUR	0.6134	-0.0015	-0.0047	-0.0105	-0.0192	FJD	1.3564	1.5146
NZD/GBP	0.5148	-0.0005	-0.0016	-0.0037	-0.0068	HKD	4.9138	5.4869
						KRW	817.63	912.98
AU TWI	62.90					MYR	2.7895	3.1147
AUD/USD	0.6813	0.0004	0.0009	0.0012	-0.0001	NOK	6.0957	6.8065
AUD/NZD	0.6535	0.0008	0.0023	0.0043	0.0056	SEK	6.3930	7.1385
AUD/JPY	95.44	-0.18	-0.64	-1.61	-3.54	SGD	0.8658	0.9668
AUD/EUR	0.6849	-0.0012	-0.0039	-0.0087	-0.0179	TWD	18.71	20.90
AUD/GBP	0.5748	-0.0001	-0.0007	-0.0020	-0.0041	ZAR	10.46	11.68
USD Index	106.38					<b>EQUITIES</b>		
EUR/USD	1.0202	0.0023	0.0068	0.0146	0.0264		<b>Index</b>	
USD/JPY	136.56	-0.34	-1.07	-2.54	-5.25	NZX50	11,135	
GBP/USD	1.2158	0.0009	0.0026	0.0054	0.0086	ASX200	6,823	
EUR/GBP	0.8390	0.0012	0.0037	0.0075	0.0155	Dow Jones	32,179	
						S&P 500	4,030	
<b>INTEREST RATES</b>		<b>New Zealand</b>		<b>Australia</b>		FTSE100	7,348	
		<b>Mid</b>		<b>Mid</b>		DAX 30	13,166	
30 day bank bills		2.82%		1.76%		Nikkei	27,716	
90 day bank bills		3.19%		2.34%		<b>COMMODITIES</b>		
1 year swap		3.87%		3.12%			<b>USD</b>	
2 year swap		3.93%		3.21%		Brent Crude	107.65	
3 year swap		3.84%		3.21%		Gold	1,733.49	
5 year swap		3.70%		3.30%		Silver	19.08	
10 year swap		3.67%		3.52%		Iron Ore	106.01	
3 year Govt bond		3.49%		2.92%		CRB Index	308.86	
5 year Govt bond		3.49%		3.09%			<b>NZD</b>	
10 year Govt bond		3.59%		3.31%		NZ Carbon	81.50	

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