

Market Alert

Tuesday 2 August 2022

CURRENCIES	Spot	6mths
NZD/USD	0.6331	-0.0010
NZD/AUD	0.9014	-0.0032
NZD/JPY	83.36	-1.63
NZD/EUR	0.6174	-0.0099
NZD/GBP	0.5166	-0.0035
NZD/CNH	4.2941	-0.0259
AUD/USD	0.7024	0.0014
AUD/EUR	0.6848	-0.0085
EUR/USD	1.0255	0.0147
USD/CNH	6.7822	-0.0298
GBP/USD	1.2252	0.0059
EUR/GBP	0.8367	0.0076

INT RATES	NZ	Australia
OCR/Cash	2.50%	1.35%
90 day bills	3.20%	2.17%
2 year swap	3.73%	3.10%
10 year Govt	3.49%	3.16%

“Danger, Danger, Will Robertson!”

In amongst a sea of pessimistic headlines, the real question is, where do we start?

Banks in China are facing up to USD350 billion in losses from the property crisis as stalled projects dent the confidence of investors, triggering a mortgage boycott across more than 90 cities and warnings of broader systemic risks.

S&P Global Ratings estimated that USD356 billion, or 6.4% of mortgages, are at risk while Deutsche Bank AG is warning that at least 7.0% of home loans

are in danger. With the Chinese economy under pressure, Fitch has announced they expect the government to roll out further fiscal measures to boost infrastructure investment. Meanwhile, the Chinese Markit Caixin Manufacturing PMIs remained in expansion territory, but only just at 50.4, however this was below June's 51.7 and forecasts at 51.5.

Goldman Sachs see a 25.0% chance of a recession in Australia over the next 12 months, with New Zealand at 30-35%, although a sharp US downturn would lift those probabilities to 50-60%. “Our base case is that Australia and New Zealand will avoid recession. We are mindful of downside risks, including recessions induced by some combination of weaker global activity, supply-side inflation, and tighter financial conditions.”

Speaking of Australia, ahead of today's RBA meeting, the Melbourne Institute's private inflation survey had July inflation jumping an incredible 1.2% on the month to 5.4% on the year, against June's 0.3% and 5.4%. Meanwhile, one of the local Australian banks has highlighted Australian job advertisements decreased 1.1% in July adding, “even if labour demand growth is starting to ease, we don't think this will translate immediately into rising underutilisation, in fact, we now forecast unemployment to fall below 3.0% by early-2023.”

Finally, the Australian Competition and Consumer Commission (ACCC), urged the federal government to consider curbing gas exports warning Australia could face

a major shortfall of gas in 2023 posing a risk to business, households, and energy security.

At the peripheral, US ISM manufacturing PMIs eased back to 52.8 in July from 53.0 in June, the S&P PMI hit 52.2 against forecasts of 52.3, construction spending in the US fell by 1.1%.

German June retail sales contracted 1.6% on the month when 0.2% increase was expected. Finally, with a lack of GIB board, NZ June building permits fell 2.3% following on from May's 0.5% decline.

While last night was a quiet session

There were some interesting moves with markets at pivotal levels. Equity markets have eased back following last weeks strong rally as investors adjusted their expectations on economic growth in the face of tightening monetary policy. However, while the equity weakness was modest, commodities came under stronger selling pressures as weaker PMIs highlighted a slowdown in factory activity.

While most commodities were off between 1.0%-3.0%, oil prices extended losses as crude fell almost 4.0% ahead of tomorrow's OPEC+ meeting where the oil cartel will likely keep global supply tight. This weakness also flowed through to bond yields, with the US 10-year treasury 3bp lower at 2.61%. The NZD, AUD and EUR made modest gains with the NZD/USD approaching its key 0.6335 pivotal level.



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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	71.30					CAD	0.8130	0.9020
NZD/USD	0.6331	-0.0001	-0.0004	-0.0010	-0.0022	CHF	0.6014	0.6674
NZD/AUD	0.9014	-0.0006	-0.0018	-0.0032	-0.0050	CNY	4.2921	4.7590
NZD/JPY	83.36	-0.21	-0.69	-1.63	-3.39	DKK	4.5953	5.0983
NZD/EUR	0.6174	-0.0015	-0.0044	-0.0099	-0.0191	FJD	1.3647	1.5141
NZD/GBP	0.5166	-0.0004	-0.0015	-0.0035	-0.0064	HKD	4.9698	5.5138
						KRW	827.66	918.25
AU TWI	63.10					MYR	2.8179	3.1264
AUD/USD	0.6813	0.0004	0.0009	0.0014	0.0003	NOK	6.1030	6.7711
AUD/NZD	0.6535	0.0007	0.0020	0.0037	0.0051	SEK	6.4079	7.1093
AUD/JPY	92.47	-0.17	-0.58	-1.49	-3.28	SGD	0.8717	0.9671
AUD/EUR	0.6848	-0.0012	-0.0037	-0.0085	-0.0177	TWD	19.07	21.15
AUD/GBP	0.5732	-0.0001	-0.0005	-0.0018	-0.0044	ZAR	10.45	11.59
USD Index	105.41					EQUITIES		
EUR/USD	1.0255	0.0024	0.0067	0.0147	0.0271		Index	
USD/JPY	131.65	-0.32	-1.00	-2.37	-4.84	NZX50	11,526	
GBP/USD	1.2252	0.0009	0.0026	0.0059	0.0089	ASX200	6,993	
EUR/GBP	0.8367	0.0013	0.0036	0.0076	0.0154	Dow Jones	32,759	
						S&P 500	4,122	
INTEREST RATES						FTSE100	7,413	
		New Zealand		Australia		DAX 30	13,480	
		Mid		Mid		Nikkei	27,993	
30 day bank bills		2.86%		1.70%		COMMODITIES		
90 day bank bills		3.20%		2.17%			USD	
1 year swap		3.75%		3.00%		Brent Crude	99.66	
2 year swap		3.73%		3.10%		Gold	1,770.95	
3 year swap		3.65%		3.06%		Silver	20.34	
5 year swap		3.55%		3.06%		Iron Ore	115.88	
10 year swap		3.58%		3.36%		CRB Index	305.78	
3 year Govt bond		3.31%		2.74%			NZD	
5 year Govt bond		3.32%		2.90%		NZ Carbon	72.40	
10 year Govt bond		3.49%		3.16%				

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