

Market Alert

Monday 29 August 2022

CURRENCIES	Spot	6mths
NZD/USD	0.6134	-0.0003
NZD/AUD	0.8895	-0.0025
NZD/JPY	84.35	-1.68
NZD/EUR	0.6156	-0.0084
NZD/GBP	0.5220	-0.0020
NZD/CNH	4.2582	0.0000
AUD/USD	0.6895	0.0015
AUD/EUR	0.6907	-0.0077
EUR/USD	0.9979	0.0130
USD/CNH	6.8948	0.0000
GBP/USD	1.1746	0.0035
EUR/GBP	0.8486	0.0082

INT RATES	NZ	Australia
OCR/Cash	3.00%	1.85%
90 day bills	3.47%	2.46%
2 year swap	4.18%	3.62%
10 year Govt	3.94%	3.65%

From now on, I'm not mincing my words!

Short, sharp, and to the point, that was the tone of the speech from Fed Chairman, Jerome Powell, at Jackson Hole, and I suspect this will be a blueprint for central banks going forward to ensure financial markets fully understand their tone and that there is no room for ambiguity.

Mr Powell warned there would be "some pain" ahead as higher interest rates will persist "for some time." Even with US interest rates entering restrictive territory, the

Fed Chair warned "While higher interest rates, slower growth, and softer labour market conditions will bring down inflation, they will also bring some pain to households and businesses. These are the unfortunate costs of reducing inflation, but a failure to restore price stability would mean far greater pain. We are moving our policy stance purposefully to a level that will be sufficiently restrictive to return inflation to 2.0%. Restoring price stability will likely require maintaining a restrictive policy stance for some time," with a warning that, "The historical record cautions strongly against prematurely loosening policy."

In warning that another unusually large increase could be appropriate at the next policy meeting, Jerome Powell warned the September decision would be totally dependent upon the incoming data and the evolving outlook, but as monetary policy tightened further, it would likely become appropriate to slow the pace of increases.

Unfortunately, while recent Fed rhetoric and logic suggested that Mr Powell's Jackson Hole speech would incorporate a 'higher-for-longer' tone, the equity markets were caught out by it, with the Dow subsequently selling-off 1,000 points, while the S&P and NASDAQ fell -3.4% and -4.1% respectively. With the fixed income markets now pricing in a 68% chance the Fed will hike 75bps at its September meeting, the US 10 year Treasury yield consolidated at 3.04%, while the USD

Index is again closing in on a 20-year high, which saw the NZD/USD fall to a 6 week low. The AUD/USD held up much better, which saw the NZD/AUD close at 0.8901.

At the peripheral

Possibly the RBNZ Governor is being a little optimistic, but Mr Orr announced, "we think there will be at least another two rate hikes (although) our core view is we won't see a technical recession." And to support that, New Zealand consumer sentiment improved in August to 85.4, from 81.9, but let's be honest, it is still grim.

Inflation is even impacting Japan after the August CPI headline number reached 2.9% on the year, when 2.5% had been expected.

Chinese industrial profits declined -1.1%, or CNY48.93 trillion, in the first seven months of the year as the economy continued to grapple with COVID-19 disruptions and a drought-influenced energy crisis.

Looking ahead, this week we have further speeches from the rent-a-quote crew at the Federal Reserve, as well as US non-farm payrolls and ISM manufacturing data. We also have inflation prints from several European countries, including Germany and France, Chinese and Australian manufacturing PMIs, Australian retail sales, and New Zealand business confidence.



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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	71.10					CAD	0.7991	0.8985
NZD/USD	0.6134	-0.0001	-0.0001	-0.0003	-0.0009	CHF	0.5920	0.6649
NZD/AUD	0.8895	-0.0005	-0.0013	-0.0025	-0.0028	CNY	4.2333	4.7550
NZD/JPY	84.35	-0.22	-0.72	-1.68	-3.51	DKK	4.5717	5.1389
NZD/EUR	0.6156	-0.0013	-0.0040	-0.0084	-0.0152	FJD	1.3419	1.5084
NZD/GBP	0.5220	-0.0004	-0.0010	-0.0020	-0.0019	HKD	4.8131	5.4102
						KRW	823.07	925.18
AU TWI	63.60					MYR	2.7388	3.0786
AUD/USD	0.6813	0.0003	0.0008	0.0015	0.0009	NOK	5.9594	6.6987
AUD/NZD	0.6535	0.0006	0.0015	0.0025	0.0028	SEK	6.5262	7.3359
AUD/JPY	94.74	-0.19	-0.68	-1.63	-3.67	SGD	0.8551	0.9612
AUD/EUR	0.6907	-0.0011	-0.0035	-0.0077	-0.0151	TWD	18.58	20.89
AUD/GBP	0.5868	-0.0001	-0.0004	-0.0007	-0.0004	ZAR	10.35	11.63
USD Index	108.84					EQUITIES		
EUR/USD	0.9979	0.0020	0.0062	0.0130	0.0236		Index	
USD/JPY	137.52	-0.32	-1.14	-2.67	-5.68	NZX50	11,608	
GBP/USD	1.1746	0.0005	0.0020	0.0035	0.0021	ASX200	7,104	
EUR/GBP	0.8486	0.0012	0.0037	0.0082	0.0178	Dow Jones	32,283	
						S&P 500	4,058	
INTEREST RATES		New Zealand		Australia		FTSE100	7,427	
		Mid		Mid		DAX 30	12,971	
30 day bank bills		3.07%		2.05%		Nikkei	28,641	
90 day bank bills		3.47%		2.46%		COMMODITIES		
1 year swap		4.08%		3.37%			USD	
2 year swap		4.18%		3.62%		Brent Crude	100.99	
3 year swap		4.12%		3.67%		Gold	1,736.86	
5 year swap		4.02%		3.72%		Silver	18.88	
10 year swap		4.04%		3.94%		Iron Ore	105.49	
3 year Govt bond		3.77%		3.23%		CRB Index	320.24	
5 year Govt bond		3.79%		3.39%			NZD	
10 year Govt bond		3.94%		3.65%		NZ Carbon	86.20	

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