

Market Alert

Friday 14 October 2022

CURRENCIES	Spot	6mths
NZD/USD	0.5641	0.0011
NZD/AUD	0.8950	-0.0044
NZD/JPY	82.98	-1.90
NZD/EUR	0.5765	-0.0073
NZD/GBP	0.4985	-0.0002
NZD/CNH	4.0220	-0.0350
AUD/USD	0.6302	0.0043
AUD/EUR	0.6438	-0.0051
EUR/USD	0.9785	0.0143
USD/CNH	7.1733	-0.0763
GBP/USD	1.1314	0.0021
EUR/GBP	0.8647	0.0106

INT RATES	NZ	Australia
OCR/Cash	3.50%	2.60%
90 day bills	3.99%	2.95%
2 year swap	4.88%	3.92%
10 year Govt	4.59%	4.09%

Well, I wasn't expecting that!

We had to wait a full week for it – and now we know – US core inflation accelerated 0.6% on the month, and 6.6% on the year from last month's 6.3%! At a headline level, CPI rose 0.4% on the month, while on the year it slowed to 8.2%, which was higher than the than 8.1% expected.

This almost certainly locks in another super-sized Fed hike at its November meeting with 75bps fully priced in, and a 16% chance that they'll go a full 100bps. Markets now projecting a peak rate of 4.85% by March 2023.

The CPI release saw US rates surge, the 2-year bond yield up 14bps to 4.73%, the 10-years bond 3bps higher at 3.94%.

Meanwhile, US mortgage rates surged to 6.92%, their highest level in 20 years! Initially, stocks were battered on the CPI release but, incredibly, equities stormed back on speculation, the year-long selloff had potentially reached a bottom. This saw the S&P500 recover from a 2.0% loss to reach gains of 2.5%. A wave of put options bought to protect against such a rout moved into the money and, as profits were booked, dealers were forced to buy stocks to remain market neutral. The USD-index also initially surged, with USDJPY peaking at 147.67, its highest level since 1998, but then turned as equities recovered to be down -0.90% on the day with the GBP the main beneficiary followed by the NZD.

While the CPI release was a 'shocker', the Fed will take comfort that the labour market appears to be loosening after initial claims by 9,000 to a 6-week high of 228,000 surpassing expectations of 225,000 as the headline release recovered from the 5-month low reached 2 weeks ago.

US treasury Secretary, Janet Yellen, announced, "we are worried about a loss of adequate liquidity in the market," as the balance-sheet capacity of broker-dealers to market-make in Treasuries hasn't expanded to compensate for the increase in treasury issuance, which has increased

by approximately USD7 trillion since the end of 2019. Simply put, large financial firms aren't willing to serve as market-makers as the supplementary leverage ratio, which requires that capital be put against such activity, limits profitability and impacts reserve holdings. Meanwhile, Fed Board Governor, Michelle Bowman, announced, "it's not clear how high the Fed Funds rate will need to go."

In our little corner of the world, New Zealand September food inflation grew at 0.4%, which is better than August's 1.1% rise, to reach 8.3% on the year. Meanwhile, the Melbourne Institute's survey of Australia consumer inflation expectations flatlined from September to October at 5.4%.

The official mouthpiece of the Chinese Government, the China Securities Times, has reported, "local government entities are to buy houses to support developers and, in turn, the economy."

The word on Pall Mall

The UK officials are discussing how to back down from Liz Truss's tax cuts as pressure mounts on her government to restore economic credibility. This saw the GBP recover while in the gilt market 10-year yields fell 13bps to 4.18% while the 30-year plummeted 60bps suggesting the BoE's emergency intervention may end with a whimper rather than an implosion!



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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	67.60					CAD	0.7745	0.8654
NZD/USD	0.5641	0.0001	0.0005	0.0011	0.0014	CHF	0.5631	0.6291
NZD/AUD	0.8950	-0.0005	-0.0022	-0.0044	-0.0073	CNY	4.0132	4.4856
NZD/JPY	82.98	-0.25	-0.92	-1.90	-4.02	DKK	4.2870	4.7893
NZD/EUR	0.5765	-0.0012	-0.0042	-0.0073	-0.0135	FJD	1.2908	1.4421
NZD/GBP	0.4985	-0.0003	-0.0007	-0.0002	0.0011	HKD	4.4281	4.9469
						KRW	807.36	901.96
AU TWI	59.90					MYR	2.6456	2.9556
AUD/USD	0.6813	0.0004	0.0020	0.0043	0.0063	NOK	5.9524	6.6499
AUD/NZD	0.6535	0.0005	0.0026	0.0050	0.0081	SEK	6.3361	7.0785
AUD/JPY	92.69	-0.23	-0.81	-1.68	-3.77	SGD	0.8068	0.9014
AUD/EUR	0.6438	-0.0010	-0.0032	-0.0051	-0.0101	TWD	17.97	20.08
AUD/GBP	0.5569	0.0000	0.0006	0.0025	0.0057	ZAR	10.28	11.49
USD Index	112.41					EQUITIES		
EUR/USD	0.9785	0.0021	0.0078	0.0143	0.0251		Index	
USD/JPY	147.09	-0.47	-1.76	-3.64	-7.56	NZX50	10,817	
GBP/USD	1.1314	0.0007	0.0024	0.0021	-0.0004	ASX200	6,643	
EUR/GBP	0.8647	0.0013	0.0049	0.0106	0.0221	Dow Jones	30,049	
						S&P 500	3,666	
						FTSE100	6,850	
						DAX 30	12,356	
						Nikkei	26,237	
INTEREST RATES			New Zealand		Australia			
			Mid		Mid			
30 day bank bills			3.57%		2.74%			
90 day bank bills			3.99%		2.95%			
1 year swap			4.79%		3.64%			
2 year swap			4.88%		3.92%			
3 year swap			4.80%		3.98%			
5 year swap			4.68%		4.17%			
10 year swap			4.68%		4.47%			
3 year Govt bond			4.46%		3.45%			
5 year Govt bond			4.46%		3.70%			
10 year Govt bond			4.59%		4.09%			
						COMMODITIES		
							USD	
						Brent Crude	94.50	
						Gold	1,668.09	
						Silver	18.91	
						Iron Ore	96.13	
						CRB Index	300.23	
							NZD	
						NZ Carbon	80.70	

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