

Market Alert

Thursday 26 January 2023

CURRENCIES	Spot	6mths
NZD/USD	0.6482	-0.0001
NZD/AUD	0.9130	-0.0063
NZD/JPY	83.95	-2.14
NZD/EUR	0.5940	-0.0064
NZD/GBP	0.5227	-0.0021
NZD/CNH	4.3842	-0.0522
AUD/USD	0.7101	0.0047
AUD/EUR	0.6505	-0.0026
EUR/USD	1.0912	0.0113
USD/CNH	6.7710	-0.0790
GBP/USD	1.2397	0.0042
EUR/GBP	0.8801	0.0058

INT RATES	NZ	Australia
OCR/Cash	4.25%	3.10%
90 day bills	4.86%	3.31%
2 year swap	4.87%	3.64%
10 year Govt	4.13%	3.59%

The good, the bad, and the ugly!

The good, well that was the New Zealand non-tradable inflation, the bad was the Bank of Canada ("BoC") raising interest rates again, and the ugly was the Australian CPI report. In fact, the headlines over the last 24-hours probably go a long way to explaining the state of financial markets at the moment – inflation is coming off. Data has been broadly better than expected, earnings are poor, and central banks continue to raise interest rates.

Overnight, the BoC raised its overnight rate by 25bps to 4.50% in line with market expectations. But in hiking rates, the central bank threw out an olive branch, stating that should economic developments evolve broadly in line with the central bank's outlook, it would end its aggressive tightening cycle. Like most countries, short-term inflation expectations remain elevated, but are projected to reduce significantly later in the year. The central bank added that it is continuing its QT programme to complement the restrictive stance of its policy settings.

Inflation remains embedded - it's just that there's a lot more of it in Australia, headline inflation surged 1.9% on the quarter and 8.4% on the year, against expectations of 1.6% and 7.7%. The trim and weighted means were also higher than anticipated, at 1.7% on the quarter and 6.9% on the year, against 1.6% and 5.8% respectively. It was a similar story in New Zealand, headline prints exceeded expectations at 1.4% on the quarter and 7.2% on the year against 1.3% and 7.1% expected. The saving grace was non-tradeable inflation which fell to 1.5% against an expected 1.7%. In comparison, the RBNZ's sectoral factor CPI model saw inflation increase to 5.8% from 5.6% on an annual basis. As a result of the lower non-tradeable print, we've now had 3 of 5 local banks call for an OCR hike of 'only' 50bps in February.

This saw NZ swap rates fall, and we opened this morning with local swap rates of 11-12 bps in the short-end from pre-CPI levels, while the back end is off 6-8bps. Australian swaps rallied 12bps across the curve. The NZD/USD opens up slightly lower this morning although the AUD/USD and EUR/USD both had strong sessions rallying above 0.7100 and 1.0900. The NZD/AUD fell to 0.9230.

In other news, the RBNZ announced, "the NZ Minister of Finance and our board have agreed that an increase in foreign currency holdings is required. Foreign reserves are safe and liquid assets held in currencies such as the USD, the EUR, and the AUD. As part of the framework, the RBNZ and the Minister of Finance must agree in the level of foreign reserves, and we should hold in order to meet our objectives." I suppose the RBNZ's objectives are to make some money to off-set losses from the QE programme!

The German IFO business indicator grew by 1.6 points on the month reaching 90.2 as the index's fourth consecutive monthly gain to reach its highest level since June 2022.

Finally, US equities slumped as weaker than expected earnings weighed on the indices. Treasury yields closed the session flat, as did oil prices although natural gas and gold declined.



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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	72.30					CAD	0.8682	0.9512
NZD/USD	0.6482	0.0002	0.0003	-0.0001	-0.0014	CHF	0.5950	0.6518
NZD/AUD	0.9130	-0.0007	-0.0027	-0.0063	-0.0123	CNY	4.3717	4.7147
NZD/JPY	83.95	-0.32	-1.01	-2.14	-4.44	DKK	4.4172	4.8390
NZD/EUR	0.5940	-0.0010	-0.0031	-0.0064	-0.0127	FJD	1.3786	1.5102
NZD/GBP	0.5227	-0.0002	-0.0008	-0.0021	-0.0047	HKD	5.0762	5.5610
						KRW	799.88	876.26
AU TWI	63.00					MYR	2.7607	3.0243
AUD/USD	0.6813	0.0008	0.0024	0.0047	0.0079	NOK	6.4165	7.0292
AUD/NZD	0.6535	0.0008	0.0031	0.0073	0.0142	SEK	6.6201	7.2523
AUD/JPY	91.94	-0.26	-0.81	-1.75	-3.66	SGD	0.8511	0.9324
AUD/EUR	0.6505	-0.0005	-0.0014	-0.0026	-0.0051	TWD	19.60	21.48
AUD/GBP	0.5726	0.0003	0.0008	0.0016	0.0024	ZAR	11.11	12.17
USD Index	101.67					EQUITIES		
EUR/USD	1.0912	0.0022	0.0061	0.0113	0.0207		Index	
USD/JPY	129.48	-0.54	-1.61	-3.27	-6.67	NZX50	11,995	
GBP/USD	1.2397	0.0008	0.0024	0.0042	0.0081	ASX200	7,468	
EUR/GBP	0.8801	0.0012	0.0032	0.0058	0.0105	Dow Jones	33,685	
						S&P 500	3,998	
						FTSE100	7,745	
						DAX 30	15,082	
						Nikkei	27,395	
						COMMODITIES		
							USD	
						Brent Crude	86.38	
						Gold	1,941.00	
						Silver	23.83	
						Iron Ore	121.97	
						CRB Index	302.52	
							NZD	
						NZ Carbon	72.50	

INTEREST RATES	New Zealand		Australia
	Mid		Mid
30 day bank bills	4.47%		3.18%
90 day bank bills	4.86%		3.31%
1 year swap	5.28%		3.72%
2 year swap	4.87%		3.64%
3 year swap	4.50%		3.57%
5 year swap	4.24%		3.57%
10 year swap	4.21%		3.88%
3 year Govt bond	4.35%		3.15%
5 year Govt bond	4.08%		3.25%
10 year Govt bond	4.13%		3.59%

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