

Market Alert

Wednesday 10 May 2023

CURRENCIES	Spot	6mths
NZD/USD	0.6332	-0.0012
NZD/AUD	0.9365	-0.0078
NZD/JPY	85.63	-2.53
NZD/EUR	0.5775	-0.0063
NZD/GBP	0.5017	-0.0021
NZD/CNH	4.3849	-0.0719
AUD/USD	0.6760	0.0044
AUD/EUR	0.6165	-0.0017
EUR/USD	1.0961	0.0101
USD/CNH	6.9258	-0.1018
GBP/USD	1.2618	0.0028
EUR/GBP	0.8686	0.0058

INT RATES	NZ	Australia
OCR/Cash	5.25%	3.85%
90 day bills	5.66%	3.93%
2 year swap	5.06%	3.62%
10 year Govt	4.25%	3.54%

The optimistic outlook

Financial markets appear content to maintain their optimistic outlook, but there is an uneasy undercurrent that will ultimately impact the US debt ceiling, stalling growth, or 'stickier' interest rates. But despite the underlying threats, markets appear content to tread water ... equity bourses were slightly lower, commodities slightly higher, while treasury yields firm with the 2-year at 4.03% and the 10-year at 3.52%. FX markets remain 'steady'.

There were also a few central bank warnings with NY Fed member John Williams stating we're "seeing signs tighter credit conditions are affecting the economy. The Fed has not said it's done raising rates, the

Fed will raise rates again if necessary." The ECB's Isabel Schnabel warned, "Rate cuts are highly unlikely for the foreseeable future. There is no doubt that we will have to do more to bring inflation to our target levels. Inflation remains high for all components except for energy. (Slowing) the hikes allows the ECB to assess the steps taken (so far)." Finally, BoJ Governor Ueda added, "Japan's inflation expectations have heightened (and) remain at elevated levels. If the Bank's inflation target is met in a sustainable, stable manner, the BoJ will end YCC and then shrink its balance sheet."

Most of the data was poor as well after the US Economic optimism index fell to its the lowest level since November, dropping 5.8 points to 41.6 in May, which was well below market expectations of 48.2, while the NFIB small business index fell to 89.0, its lowest level since January 2013.

Australian Q1 retail sales eased -0.6%, which was in line with expectations, while weekly consumer confidence fell (again) to 77.7 from 79.8. Household spending contracted -4.3% in April following March's 8.0% increase.

Chinese trade remains extremely high after exports surged 8.5%, while imports fell -7.9% to generate a USD90.2bn trade surplus in the 12-months to April. The huge fall in imports suggests the domestic recovery continues to weigh on the Chinese reopening.

Where there's smoke ... there's usually fire!

Morgan Stanley has turned bearish, announcing "the equity market continues to expect the best of both worlds—rate cuts and durable growth. We view the likelihood of both of those outcomes playing out as low... equities are priced for an optimistic outcome. Slowing inflation means pricing power will also fade for firms."

JPMorgan also joined the club, stating "the full impact of Feds interest-rate hiking cycle will catch up to the economy. What equity, and more broadly risk markets, refuse to acknowledge is that if rate cuts happen this year, it will either be because of the onset of a recession or a significant crisis in financial markets."

US Treasury Secretary Janet Yellen once again warned that "our projection is that as early as 1-June, the treasury will run out of cash and extraordinary measures to pay government's debts. A failure by Congress to raise the USD31.4trn debt limit would cause a huge hit to the US economy and weaken the dollar as the world's reserve currency," although Bill Gross, former CIO of PIMCO, went a full 2-bob each way with "It's ridiculous. It is always resolved, well, not that it is a 100% chance, but I think it gets resolved." Bill also believes "investors should expect 3.0%-4.0% inflation going forward."

Former President Donald Trump has been found liable for sexual assault in the civil E. Jean Carroll suit.



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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	72.00					CAD	0.8473	0.9045
NZD/USD	0.6332	-0.0001	-0.0003	-0.0012	-0.0040	CHF	0.5638	0.6019
NZD/AUD	0.9365	-0.0013	-0.0037	-0.0078	-0.0149	CNY	4.3750	4.6717
NZD/JPY	85.63	-0.42	-1.28	-2.53	-4.95	DKK	4.2994	4.5900
NZD/EUR	0.5775	-0.0011	-0.0033	-0.0063	-0.0124	FJD	1.3735	1.4664
NZD/GBP	0.5017	-0.0004	-0.0011	-0.0021	-0.0038	HKD	4.9650	5.3007
						KRW	839.29	896.02
AU TWI	61.20					MYR	2.8158	3.0062
AUD/USD	0.6760	0.0008	0.0023	0.0044	0.0059	NOK	6.6923	7.1446
AUD/NZD	1.0675	0.0013	0.0041	0.0085	0.0157	SEK	6.4541	6.8904
AUD/JPY	91.43	-0.34	-0.99	-1.95	-3.92	SGD	0.8406	0.8975
AUD/EUR	0.6165	-0.0004	-0.0010	-0.0017	-0.0037	TWD	19.46	20.78
AUD/GBP	0.5356	0.0002	0.0009	0.0022	0.0043	ZAR	11.79	12.59
USD Index	101.62					EQUITIES		
EUR/USD	1.0961	0.0020	0.0055	0.0101	0.0164		Index	
USD/JPY	135.25	-0.65	-1.94	-3.75	-7.03	NZX50	11,890	
GBP/USD	1.2618	0.0008	0.0022	0.0028	0.0013	ASX200	7,264	
EUR/GBP	0.8686	0.0009	0.0027	0.0058	0.0121	Dow Jones	33,590	
						S&P 500	4,123	
INTEREST RATES			New Zealand		Australia	FTSE100	7,764	
			Mid		Mid	DAX 30	15,955	
30 day bank bills			5.54%		3.87%	Nikkei	29,243	
90 day bank bills			5.66%		3.93%	COMMODITIES		
1 year swap			5.60%		3.82%		USD	
2 year swap			5.06%		3.62%	Brent Crude	77.28	
3 year swap			4.67%		3.48%	Gold	2,034.39	
5 year swap			4.31%		3.46%	Silver	25.58	
10 year swap			4.23%		3.83%	Iron Ore	107.40	
3 year Govt bond			4.40%		3.14%	CRB Index	291.52	
5 year Govt bond			4.17%		3.18%		NZD	
10 year Govt bond			4.25%		3.54%	NZ Carbon	54.00	

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