

Market Alert

Thursday 15 June 2023

CURRENCIES	Spot	6mths
NZD/USD	0.6209	-0.0008
NZD/AUD	0.9141	-0.0049
NZD/JPY	86.85	-2.61
NZD/EUR	0.5735	-0.0063
NZD/GBP	0.4903	-0.0013
NZD/CNH	4.4588	-0.0759
AUD/USD	0.6791	0.0028
AUD/EUR	0.6272	-0.0034
EUR/USD	1.0824	0.0101
USD/CNH	7.1749	-0.1133
GBP/USD	1.2659	0.0012
EUR/GBP	0.8549	0.0069

INT RATES	NZ	Australia
OCR/Cash	5.50%	4.10%
90 day bills	5.71%	4.27%
2 year swap	5.38%	4.37%
10 year Govt	4.61%	4.05%

It's a game of 2-halves.

First up, the Fed statement confirmed the pause but had a distinctive 'hawkishness' in its tone. Summing it up, the Federal Reserve maintained its Fed Funds range at 5.00%-5.25%. The vote was unanimous and, in implementing its first pause since the start of the hiking cycle in March 2022, it provides the Fed with time to "assess additional information and its implications for monetary policy." But there was a surprise, the Fed's latest projections show policymakers favour a further 50bps of increases this year, pushing their median forecast to 5.60% at year end, with a 4.60% 2024 year-end rate. The Fed's forecasts for economic growth and core inflation increased for 2023, while unemployment projections fell. The Fed's view is that

the US economy continues to expand at a modest pace with robust job gains and low unemployment, although inflation remains "elevated." The statement makes it clear the Fed will hike rates further should they deem it appropriate given, "the Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals."

As has been the recent trend, the Q&A session undertook a slightly different tone. Fed Chair Jerome Powell started with, "we've covered a lot of ground and the full effects of our tightening are yet to be felt," before adding, "if the economy does not evolve as projected, the path for policy will adjust as appropriate to foster our maximum employment and price stability goals. Nearly all committee participants expected it will be appropriate to raise interest rates somewhat further by the end of the year." On the decision to hold today, he added, "the reason we're comfortable pausing is that much of the tightening took place last summer and I think it's reasonable to think that some of that may (still) come into effect." Going forward, "we're stretching out into a more moderate pace, as appropriate, to allow for more data to gather to see the impacts (as) there's just 'not a lot of progress' in core inflation. We want to see it moving down decisively."

Following the statement, equity and bond markets sold off, although rebounded during the Q&A session. Equities remain mixed, with the Dow being the worst performer, off -1.0%, while the 2-year

US bond yield has eased back 7bps from its high to be up 'just' 7bps on the day at 4.70%. The 10-year US yield is actually 3bps lower at 3.79%. The USD-index has eased off, but is continuing to hold the 103.00 level, which has seen the EUR/USD rally past the 1.0800 level. The NZD/USD has also spiked above the 0.6200 handle, while AUD/USD is trading around the 0.6800 level.

The best of the rest.

The NZ food price index increased 0.3% in May, which was better than April's 0.5% increase although, on the year, it remains at excessive levels having risen 12.1%. In a further (mild) positive, the current account deficit improved from Q4's -8.9% to -8.5%, or in dollar terms from NZD6.6 billion to NZD5.2 billion.

The IMF has also chimed in with their own views on the local economy, stating, "the RBNZ will need to hold interest rates at their current level 'for a prolonged period' and should remain open to further hikes if necessary to tame inflation. The RBNZ's rapid increases of the OCR to date are 'appropriate' and are helping to slow consumer-price gains."



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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	71.00					CAD	0.8277	0.9053
NZD/USD	0.6209	-0.0001	-0.0004	-0.0008	-0.0018	CHF	0.5596	0.6122
NZD/AUD	0.9141	-0.0009	-0.0028	-0.0049	-0.0090	CNY	4.4466	4.8634
NZD/JPY	86.85	-0.45	-1.33	-2.61	-5.16	DKK	4.2735	4.6740
NZD/EUR	0.5735	-0.0011	-0.0032	-0.0063	-0.0124	FJD	1.3530	1.4798
NZD/GBP	0.4903	-0.0004	-0.0010	-0.0013	-0.0016	HKD	4.8621	5.3179
						KRW	790.59	864.69
AU TWI	62.30					MYR	2.8679	3.1368
AUD/USD	0.6791	0.0005	0.0016	0.0028	0.0041	NOK	6.6125	7.2324
AUD/NZD	1.0935	0.0010	0.0032	0.0057	0.0099	SEK	6.6601	7.2842
AUD/JPY	95.01	-0.39	-1.17	-2.36	-4.73	SGD	0.8327	0.9107
AUD/EUR	0.6272	-0.0006	-0.0016	-0.0034	-0.0075	TWD	19.07	20.86
AUD/GBP	0.5363	0.0002	0.0005	0.0015	0.0038	ZAR	11.39	12.45
USD Index	103.04					EQUITIES		
EUR/USD	1.0824	0.0018	0.0053	0.0101	0.0200		Index	
USD/JPY	139.84	-0.69	-2.05	-4.04	-7.92	NZX50	11,679	
GBP/USD	1.2659	0.0006	0.0012	0.0012	-0.0008	ASX200	7,162	
EUR/GBP	0.8549	0.0010	0.0029	0.0069	0.0164	Dow Jones	33,878	
						S&P 500	4,370	
INTEREST RATES			New Zealand		Australia	FTSE100	7,603	
			Mid		Mid	DAX 30	16,311	
30 day bank bills			5.63%		4.12%	Nikkei	33,502	
90 day bank bills			5.71%		4.27%	COMMODITIES		
1 year swap			5.77%		4.45%		USD	
2 year swap			5.38%		4.37%	Brent Crude	73.57	
3 year swap			5.03%		4.22%	Gold	1,945.67	
5 year swap			4.64%		4.06%	Silver	23.95	
10 year swap			4.49%		4.25%	Iron Ore	112.45	
3 year Govt bond			4.79%		3.97%	CRB Index	288.77	
5 year Govt bond			4.58%		3.91%		NZD	
10 year Govt bond			4.61%		4.05%	NZ Carbon	60.50	

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