

Market Alert

Thursday 17 August 2023

CURRENCIES	Spot	6mths
NZD/USD	0.5930	0.0001
NZD/AUD	0.9239	-0.0058
NZD/JPY	86.77	-2.60
NZD/EUR	0.5453	-0.0052
NZD/GBP	0.4662	0.0001
NZD/CNH	4.3551	-0.0676
AUD/USD	0.6420	0.0041
AUD/EUR	0.5902	-0.0019
EUR/USD	1.0874	0.0101
USD/CNH	7.3411	-0.1149
GBP/USD	1.2716	-0.0008
EUR/GBP	0.8549	0.0082

INT RATES	NZ	Australia
OCR/Cash	5.50%	4.10%
90 day bills	5.68%	4.20%
2 year swap	5.53%	4.25%
10 year Govt	5.04%	4.28%

Watch, worry and wait some more

There were few market ripples from the RBNZ leaving the OCR unchanged yesterday, with Governor, Adrian Orr, acknowledging the orchestrated economic slowdown is broadly in line with expectations and is what is needed to get inflation back to target. The trouble is, global events are moving quickly, and not in a favourable direction. This week's dire dairy auction result suggests no 'soft landing' for the New Zealand economy and will significantly compound the slowdown already being engineered by the RBNZ.

The updated RBNZ forecasts reflect a short and modest recession (-0.3% in the September quarter and -0.1% in the

December quarter) but the central bank noted that "over the medium term, a greater slowdown in global economic demand, particularly in China, could weigh more on commodity prices and overall New Zealand export revenue." A look at any commodity index will reveal that these risks are now realities, ones already being felt throughout the rural communities and beyond. Unless China quickly becomes a lot bolder with its stimulus efforts, we'll soon have more to worry about than high inflation.

Fed minutes rattle markets

There has been plenty of currency volatility over the past 24 hours, with initial USD weakness overnight quickly undone by the release of hawkish Fed minutes, proving yet again that it is the USD leg dictating currency moves.

The NZD/USD initially lifted to 0.5990 but that lift quickly faded, with the release of the minutes sending the NZD/USD to 0.5930 - a fresh 2023 low. It was a similar story for the AUD/USD, which capitulated to 0.6420 after staging an initial rally to 0.6480. Equity markets were also on the backfoot, while US yields spiked higher, the 10-year Treasury yield approaching 4.30% and the 2-year yield nearing 5.00%. The US economy's surprising resilience in the face of more than 5% of Fed hikes, combined with increased quantities of Treasury issuance, is also underpinning longer term yields.

The Fed minutes showed that US policymakers remain nervous about upside inflation risks and suggested they may continue raising interest rates. Markets do not currently expect another rate increase and continue to expect the Fed to start rate cuts by the middle of 2024. Next week's Jackson Hole conference may provide another opportunity for policymakers to get their views across, with the Fed Governor expected to deliver remarks.

UK inflation drops

A big decline in UK CPI will be a welcome relief to policymakers but is unlikely to head off another 25bp hike from the BoE next month. The headline CPI reading falling from 7.9% in June to 6.8% in July, a 15-month low and down from a peak of 11.1% in October. The fall was helped by a reduction in the energy price cap and food costs rising less rapidly. The NZD/GBP has fallen below 0.4670, down more than 11% so far this year and at its weakest level since 2016 (excluding a brief Covid-inspired dip).



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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	70.00					CAD	0.8026	0.8688
NZD/USD	0.5930	0.0000	0.0000	0.0001	-0.0013	CHF	0.5217	0.5650
NZD/AUD	0.9239	-0.0010	-0.0030	-0.0058	-0.0119	CNY	4.3300	4.6854
NZD/JPY	86.77	-0.44	-1.28	-2.60	-5.14	DKK	4.0628	4.3985
NZD/EUR	0.5453	-0.0008	-0.0025	-0.0052	-0.0110	FJD	1.3263	1.4359
NZD/GBP	0.4662	-0.0001	0.0000	0.0001	0.0004	HKD	4.6442	5.0280
						KRW	796.32	862.12
AU TWI	60.40					MYR	2.7438	2.9705
AUD/USD	0.6420	0.0007	0.0021	0.0041	0.0062	NOK	6.3036	6.8243
AUD/NZD	1.0820	0.0011	0.0034	0.0066	0.0114	SEK	6.4832	7.0189
AUD/JPY	93.92	-0.37	-1.09	-2.25	-4.42	SGD	0.8065	0.8731
AUD/EUR	0.5902	-0.0003	-0.0007	-0.0019	-0.0044	TWD	18.96	20.52
AUD/GBP	0.5047	0.0004	0.0016	0.0032	0.0069	ZAR	11.38	12.32
USD Index	103.50					EQUITIES		
EUR/USD	1.0874	0.0016	0.0047	0.0101	0.0188		Index	
USD/JPY	146.34	-0.73	-2.16	-4.40	-8.32	NZX50	11,763	
GBP/USD	1.2716	0.0002	0.0001	-0.0008	-0.0047	ASX200	7,195	
EUR/GBP	0.8549	0.0010	0.0037	0.0082	0.0179	Dow Jones	34,790	
						S&P 500	4,409	
INTEREST RATES			New Zealand		Australia	FTSE100	7,357	
			Mid		Mid	DAX 30	15,789	
30 day bank bills			5.65%		4.11%	Nikkei	31,767	
90 day bank bills			5.68%		4.20%	COMMODITIES		
1 year swap			5.78%		4.31%		USD	
2 year swap			5.53%		4.27%	Brent Crude	83.27	
3 year swap			5.23%		4.17%	Gold	1,892.50	
5 year swap			4.93%		4.32%	Silver	22.43	
10 year swap			4.83%		4.60%	Iron Ore	104.80	
3 year Govt bond			5.19%		3.96%	CRB Index	306.22	
5 year Govt bond			4.99%		4.00%		NZD	
10 year Govt bond			5.04%		4.28%	NZ Carbon	61.40	

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