

Market Alert

Wednesday 2 August 2023

CURRENCIES	Spot	6mths
NZD/USD	0.6141	-0.0001
NZD/AUD	0.9291	-0.0061
NZD/JPY	88.08	-2.63
NZD/EUR	0.5595	-0.0055
NZD/GBP	0.4809	-0.0002
NZD/CNH	4.4139	-0.0744
AUD/USD	0.6610	0.0042
AUD/EUR	0.6021	-0.0020
EUR/USD	1.0975	0.0105
USD/CNH	7.1861	-0.1199
GBP/USD	1.2770	-0.0003
EUR/GBP	0.8594	0.0080

INT RATES	NZ	Australia
OCR/Cash	5.50%	4.10%
90 day bills	5.70%	4.31%
2 year swap	5.48%	4.23%
10 year Govt	4.78%	4.04%

While there was plenty of excitement ...

...in the lead up to the RBA announcement, with 18 out of 30 economists forecasting a rate hike, while the market was pricing it at a modest 15%, the actual event was rather anticlimactic after the RBA left the cash rate unchanged at 4.10%!

The statement referenced, *"Some further tightening of monetary policy may be required to ensure that inflation returns to target in a reasonable timeframe, but that will depend upon the data and the evolving assessment of risks."* The board also sounded a bit more confident on the inflation outlook announcing, *"The central forecast is for CPI inflation to continue to decline, to be around 3.25% by the end of 2024 and to be back within the 2.0%-3.0% target range in late 2025. The*

central forecast is for GDP growth of around 1.75% over 2024 and a little above 2.0% over the following year." The RBA was keen to emphasise that they left the cash rate unchanged in order to assess the impact of past hikes, while the statement also referenced that household consumption growth and investment in dwellings remained weak.

The 'pause' announcement saw the AUD weaken across the board and the interest rate swap curve fall 12bps initially, before recovering to be down 7-8bps at the front end. The flows also contributed to a weaker NZD, although NZD/AUD rallied to above the 0.9300 level, while the NZD swaps curve held on to its gains as US yields firmed with the 2 and 10-years 3 and 9bps higher, yielding 4.91% and 4.05%. The USD had another positive session, especially against the JPY, while equity and commodity markets started the month in the red.

Australian S&P manufacturing PMIs rallied to their highest since February at 49.6, while NZ building consents rose to 3.5% in June 2023 from May's -2.2%. On the year, they are down -12%! And just to add to the NZ doom and gloom narrative, the GDT auction saw prices fall another -4.3% with WMP absolutely smashed, falling -8.0%! SMP also fell, but 'just' -1.4% while, incredibly, butter milk powder prices rose 9.9%.

US job openings fell by 34k from a month earlier to 9.582m, while ISM manufacturing PMIs firmed slightly from 46.0 to 46.4 in what its 9th consecutive

month in contractionary territory. In other headlines, Chinese June S&P manufacturing PMIs 'joined the club' falling into contractionary territory easing to 49.2 from 50.5, while the Germany unemployment rate fell below forecasts at 5.6%.

What was the BoJ thinking?

While Friday's BoJ decision was meant to increase the sustainability of monetary easing by making YCC more flexible, that's not the way markets are seeing it after USD/JPY gapped to a 1-month high at 143.40, which underpinned NZD/JPY and AUD/JPY. This saw the Japanese finance minister, Suzuki San, attempt to support the JPY stating, *"We will closely monitor FX market moves. FX should move stably reflecting fundamentals. Friday's BoJ decision will make monetary easing more sustainable by making YCC flexible."* Meanwhile, Japanese Jibun final manufacturing PMIs eased back to 49.6 from 49.8 while the June unemployment rate printed at 2.5%, as expected.

Finally, Chicago Fed President Austan Goolsbee announced, *"The markets fully expected the Fed will bring inflation down. The JOLTS data looks consistent with strong labour market moving to a more balanced phase. FOMC decisions are 'close calls' as we try to manage the transition. Need to see sustained, steady progress on inflation."*



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Daily Rates

Wednesday 2 August 2023

FX	Spot	FECs (mid)				Spot Mid	
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...
NZ TWI	71.50					CAD	0.8161 0.8784
NZD/USD	0.6141	0.0000	0.0000	-0.0001	-0.0014	CHF	0.5376 0.5787
NZD/AUD	0.9291	-0.0011	-0.0030	-0.0061	-0.0117	CNY	4.4058 4.7418
NZD/JPY	88.08	-0.45	-1.30	-2.63	-5.18	DKK	4.1684 4.4867
NZD/EUR	0.5595	-0.0009	-0.0025	-0.0055	-0.0118	FJD	1.3438 1.4464
NZD/GBP	0.4809	-0.0001	-0.0001	-0.0002	-0.0001	HKD	4.7864 5.1519
						KRW	790.60 850.98
AU TWI	61.40					MYR	2.7739 2.9857
AUD/USD	0.6610	0.0008	0.0021	0.0042	0.0063	NOK	6.2718 6.7508
AUD/NZD	1.0759	0.0012	0.0034	0.0068	0.0123	SEK	6.5160 7.0137
AUD/JPY	94.78	-0.37	-1.09	-2.23	-4.49	SGD	0.8204 0.8831
AUD/EUR	0.6021	-0.0002	-0.0008	-0.0020	-0.0053	TWD	19.40 20.89
AUD/GBP	0.5176	0.0005	0.0015	0.0032	0.0064	ZAR	11.22 12.08
USD Index	102.28					EQUITIES	
EUR/USD	1.0975	0.0017	0.0049	0.0105	0.0193		Index
USD/JPY	143.40	-0.73	-2.12	-4.25	-8.11	NZX50	11,980
GBP/USD	1.2770	0.0001	0.0002	-0.0003	-0.0035	ASX200	7,451
EUR/GBP	0.8594	0.0011	0.0036	0.0080	0.0170	Dow Jones	35,621
						S&P 500	4,582
INTEREST RATES			New Zealand		Australia	FTSE100	7,666
			Mid		Mid	DAX 30	16,240
30 day bank bills			5.66%		4.16%	Nikkei	33,477
90 day bank bills			5.70%		4.31%	COMMODITIES	
1 year swap			5.80%		4.34%		USD
2 year swap			5.48%		4.25%	Brent Crude	84.98
3 year swap			5.15%		4.11%	Gold	1,944.38
5 year swap			4.79%		4.23%	Silver	24.31
10 year swap			4.63%		4.48%	Iron Ore	108.96
3 year Govt bond			5.07%		3.79%	CRB Index	313.79
5 year Govt bond			4.82%		3.79%		NZD
10 year Govt bond			4.78%		4.04%	NZ Carbon	57.50

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