

Market Alert

Thursday 3 August 2023

CURRENCIES	Spot	6mths
NZD/USD	0.6078	0.0000
NZD/AUD	0.9293	-0.0061
NZD/JPY	87.11	-2.59
NZD/EUR	0.5557	-0.0054
NZD/GBP	0.4779	-0.0002
NZD/CNH	4.3785	-0.0730
AUD/USD	0.6539	0.0042
AUD/EUR	0.5978	-0.0021
EUR/USD	1.0934	0.0104
USD/CNH	7.2052	-0.1197
GBP/USD	1.2714	-0.0001
EUR/GBP	0.8598	0.0079

INT RATES	NZ	Australia
OCR/Cash	5.50%	4.10%
90 day bills	5.71%	4.24%
2 year swap	5.46%	4.12%
10 year Govt	4.81%	4.09%

Fitch takes on the US government!

What a day it was in Washington yesterday after former US President Donald Trump was indicted ... again ... while Fitch downgraded the US government's long-term credit rating to AA+ from AAA.

The rationale for the downgrade was justified by "the expected fiscal deterioration over the next 3-years, a high and growing general government debt burden, and the erosion of governance." Fitch projects the "deficit will rise to 6.3% of GDP in 2023, from 3.7% in 2022. It will then increase to 6.6% of GDP in 2024, with a further widening to 6.9% in 2025. The interest-to-revenue ratio is expected to reach 10.0% by 2025, compared to 2.8% for the 'AA' median and 1.0% for the 'AAA' median."

The last time this happened was when S&P downgraded the US in 2011, sparking a major equity sell-off, and European and US equities are all -1.0% to -2.0% lower this morning. In 2011 the US government retaliated by launching an investigation into S&P's role in the sub-prime crisis, which was ultimately resolved 3-weeks later when the S&P CEO resigned. Unfortunately, this time the implications may be more meaningful as 2 out of the 3 rating agencies now have the US at sub-AAA. According to most government officials, economists, market commentators, and bank CEOs, the downgrade was ridiculous, flawed, or crazy, with the main question being, why now? Ultimately, the downgrade is symbolic of the record amounts of issuance that governments require going forward and I would expect to see this happen to a lot more countries, including New Zealand, but the real question we should be asking is, does it really matter? And if a country has strong economic growth, then the answer is probably no, it will just add to funding costs.

To that end, the US economy is well placed with private sector job creation remaining robust after private businesses hired 324k workers in July, slightly below June's 455k gain, but well ahead of expectations at 189k.

The impact has weighed on markets with equities lower and bond yields surging to reach 2023 highs as the 10-year initially gained 10bp to yield 4.12%, before retreating to 4.07%. In amongst the chaos, the US Treasury coincidentally

announced it would increase the size of its quarterly issuance for the first time in 2.5-years, announcing it will issue USD103bn of 3, 10, and 30-year notes next week, up from USD96bn last time. But while equities, commodities, and treasuries all succumb to selling pressure, the USD found support from safe haven flows with the NZD and AUD being the 2 currencies most impacted as they fell to 1-month and 2-month lows.

Is the recession starting to impact?

In NZD the unemployment rate 'surged' to 3.6% from 3.4%, while Q2 labour costs, year-on-year, eased to 4.3% from 4.5% and the participation rate increased to 72.4 from 72.0. Interestingly, economic theory dictates that unemployment traditionally reaches record lows as an economy enters a recession, and then surges as the recession starts to impact!

The release of the BoJ's June minutes provided some concretionary insights last week's BoJ meeting as, "One member said the BoJ must sustain monetary easing with an eye on side-effects of policy. Members shared the view there was no need to make operational tweaks to YCC at this point (although) one member said BoJ must consider reviewing YCC at early stage to avoid big rate volatility upon future exit from easy policy."



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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	70.90					CAD	0.8114	0.8730
NZD/USD	0.6078	0.0000	0.0000	0.0000	-0.0011	CHF	0.5335	0.5741
NZD/AUD	0.9293	-0.0011	-0.0031	-0.0061	-0.0118	CNY	4.3765	4.7079
NZD/JPY	87.11	-0.43	-1.28	-2.59	-5.05	DKK	4.1415	4.4557
NZD/EUR	0.5557	-0.0008	-0.0026	-0.0054	-0.0112	FJD	1.3300	1.4309
NZD/GBP	0.4779	-0.0001	-0.0001	-0.0002	-0.0001	HKD	4.7419	5.1016
						KRW	790.86	850.84
AU TWI	60.70					MYR	2.7600	2.9694
AUD/USD	0.6539	0.0008	0.0022	0.0042	0.0067	NOK	6.2514	6.7256
AUD/NZD	1.0758	0.0012	0.0035	0.0068	0.0121	SEK	6.5179	7.0123
AUD/JPY	93.73	-0.36	-1.07	-2.18	-4.36	SGD	0.8157	0.8775
AUD/EUR	0.5978	-0.0002	-0.0008	-0.0021	-0.0048	TWD	19.22	20.68
AUD/GBP	0.5142	0.0005	0.0016	0.0031	0.0062	ZAR	11.21	12.06
USD Index	102.61					EQUITIES		
EUR/USD	1.0934	0.0016	0.0050	0.0104	0.0195		Index	
USD/JPY	143.34	-0.71	-2.12	-4.22	-8.02	NZX50	11,962	
GBP/USD	1.2714	0.0002	0.0002	-0.0001	-0.0029	ASX200	7,355	
EUR/GBP	0.8598	0.0011	0.0037	0.0079	0.0170	Dow Jones	35,234	
						S&P 500	4,511	
INTEREST RATES			New Zealand		Australia	FTSE100	7,562	
			Mid		Mid	DAX 30	16,020	
30 day bank bills			5.66%		4.11%	Nikkei	32,708	
90 day bank bills			5.71%		4.24%	COMMODITIES		
1 year swap			5.80%		4.28%		USD	
2 year swap			5.46%		4.14%	Brent Crude	83.51	
3 year swap			5.14%		4.01%	Gold	1,935.57	
5 year swap			4.80%		4.15%	Silver	23.72	
10 year swap			4.66%		4.43%	Iron Ore	108.32	
3 year Govt bond			5.06%		3.79%	CRB Index	308.98	
5 year Govt bond			4.82%		3.82%		NZD	
10 year Govt bond			4.81%		4.09%	NZ Carbon	57.00	

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