

Market Alert

Friday 20 October 2023

CURRENCIES	Spot	6mths
NZD/USD	0.5852	0.0001
NZD/AUD	0.9235	-0.0056
NZD/JPY	87.69	-2.59
NZD/EUR	0.5526	-0.0047
NZD/GBP	0.4813	-0.0005
NZD/CNH	4.2917	-0.0433
AUD/USD	0.6336	0.0039
AUD/EUR	0.5981	-0.0014
EUR/USD	1.0589	0.0088
USD/CNH	7.3333	-0.0751
GBP/USD	1.2156	0.0013
EUR/GBP	0.8709	0.0063

INT RATES	NZ	Australia
OCR/Cash	5.50%	4.10%
90 day bills	5.69%	4.27%
2 year swap	5.67%	4.43%
10 year Govt	5.60%	4.79%

It seems like we're all waiting for something...

... whether it's a ground invasion, a semi-final, a game of cricket or league, or even that next vacation... unless you're an American after the US State Department issued a world-wide travel warning to its citizens, while the US, UK and Germany all advised their citizens to leave Lebanon amid fears of a wider conflict!

In financial markets, everyone was waiting for Fed Chairman Jerome Powell's speech at the Economic Club of New York, and while acknowledged an easing of inflationary pressures within the US economy, he went a dollar each-way warning, "A few months of good data is only the beginning of what it will take to build confidence in the inflation path. Further evidence of above-trend growth,

or that the labour market is no longer easing, could warrant further hikes. The extent of additional firming, and how long we keep policy restrictive, will depend on the data, the outlook, and the balance of risks. The significant tightening of financial conditions through higher bond yields could have implications for monetary policy! Our policy stance is restrictive, and shorter-term measures of core inflation over the most recent 3 and 6-months are now running below 3.0%. Growth is running above its longer run trend, which is a surprise... there may be ways the economy is less affected by interest rates. Household savings are higher, spending has been higher, and there is no precision in understanding monetary policy lag effects. We should be seeing the effects of monetary policy arriving, and the Fed has slowed the pace of the rate hiking cycle to give policy time to work. By any reckoning, neutral rates ebbed lower over recent decades, but I'm unsure where it is now. Economic models are useful, but we have to look at what the economy is telling us... and the evidence is not that policy is too tight!"

Jerome also had a couple of colleagues on the newswires with Austan Goolsbee confirming, "The US labour market has eased, but is still strong. Also, the housing-shelter component of inflation is a key measure. I haven't seen a recession, hopefully we can avoid one" while Michael Barr, the Fed's VC of Supervision, announced, "The Fed are developing additional scenarios for the 2024 stress tests for large banks."

In terms of the actual data releases ...

... initial claims fell by 13k to 198k, its lowest level since January and well below estimates at 212k. The strong labour market reaffirmed Powell's view that inflation is still too high and lower economic growth is likely needed to bring it down. Interestingly, in times of conflict one would normally expect safe haven buying of US treasuries, but this time around, it hasn't been the case as the strong US data and a lack of buyers from Japan and China has seen US Treasury yield surge to new highs with the 10-years reaching a 16-year high at 4.99%. Equity markets reacted as one would expect, falling between -0.50% and -1.5%, while oil prices rallied 1.25%. FX markets were strangely subdued with the NZD and AUD cementing in yesterday's losses.

Moves in the 30-year yield saw the average US mortgage rate increase to the 8.0% level! Its no wonder home sales fell to a 13-year low, 2% down in Q3 from Q2, while sluggish house sales are also an issue in China with new home prices contracting for the 3rd month in a row falling 0.1% in the 12-months to September.



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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	69.70					CAD	0.8022 0.8687
NZD/USD	0.5852	0.0000	0.0001	0.0001	-0.0008	CHF	0.5224 0.5656
NZD/AUD	0.9235	-0.0010	-0.0030	-0.0056	-0.0103	CNY	4.2778 4.6308
NZD/JPY	87.69	-0.43	-1.32	-2.59	-5.09	DKK	4.1244 4.4655
NZD/EUR	0.5526	-0.0007	-0.0023	-0.0047	-0.0103	FJD	1.3177 1.4267
NZD/GBP	0.4813	-0.0001	-0.0003	-0.0005	-0.0015	HKD	4.5784 4.9571
						KRW	793.20 858.80
AU TWI	59.90					MYR	2.7879 3.0185
AUD/USD	0.6336	0.0007	0.0021	0.0039	0.0061	NOK	6.4342 6.9663
AUD/NZD	1.0825	0.0011	0.0033	0.0063	0.0114	SEK	6.4106 6.9408
AUD/JPY	94.95	-0.38	-1.13	-2.25	-4.52	SGD	0.8029 0.8693
AUD/EUR	0.5981	-0.0001	-0.0007	-0.0014	-0.0045	TWD	18.93 20.49
AUD/GBP	0.5211	0.0005	0.0014	0.0026	0.0039	ZAR	11.11 12.02
USD Index	106.11					EQUITIES	
EUR/USD	1.0589	0.0013	0.0046	0.0088	0.0175		Index
USD/JPY	149.81	-0.76	-2.27	-4.45	-8.50	NZX50	11,136
GBP/USD	1.2156	0.0002	0.0007	0.0013	0.0007	ASX200	6,982
EUR/GBP	0.8709	0.0009	0.0030	0.0063	0.0129	Dow Jones	33,549
						S&P 500	4,307
INTEREST RATES			New Zealand		Australia	FTSE100	7,500
			Mid		Mid	DAX 30	15,045
30 day bank bills			5.64%		4.12%	Nikkei	31,431
90 day bank bills			5.69%		4.27%	COMMODITIES	
1 year swap			5.82%		4.40%		USD
2 year swap			5.67%		4.43%	Brent Crude	92.29
3 year swap			5.50%		4.42%	Gold	1,971.49
5 year swap			5.36%		4.71%	Silver	22.89
10 year swap			5.42%		5.04%	Iron Ore	119.01
3 year Govt bond			5.57%		4.42%	CRB Index	323.08
5 year Govt bond			5.46%		4.71%		NZD
10 year Govt bond			5.60%		4.79%	NZ Carbon	69.50

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