

Market Alert

Tuesday 21 November 2023

CURRENCIES	Spot	6mths
NZD/USD	0.6028	0.0001
NZD/AUD	0.9193	-0.0044
NZD/JPY	89.45	-2.54
NZD/EUR	0.5508	-0.0043
NZD/GBP	0.4819	-0.0006
NZD/CNH	4.3210	-0.0584
AUD/USD	0.6556	0.0032
AUD/EUR	0.5988	-0.0019
EUR/USD	1.0944	0.0087
USD/CNH	7.1668	-0.0983
GBP/USD	1.2503	0.0013
EUR/GBP	0.8750	0.0058

INT RATES	NZ	Australia
OCR/Cash	5.50%	4.35%
90 day bills	5.67%	4.43%
2 year swap	5.09%	4.37%
10 year Govt	5.01%	4.59%

It has taken a little while...

... but the 'penny' is finally dropping on the 'weaker USD-story' on the belief that the Federal Reserve is done with its tightening cycle and that interest rate cuts are on their way. It is not the first time that financial markets have 'lent' this way, but option pricing suggests that this time there is a stronger conviction and that we've seen the USD-top. The overnight price action saw the USD-index drop to its lowest level in 11 weeks, below 103.50, with the JPY being the main beneficiary as USD/JPY fell through 148.50 with giant hedge fund Pimco buying the JPY (allegedly) after forecasting the BoJ will be pressured into tightening its monetary policy as inflation accelerates.

The CNY also recovered, with USD/CNY

dropping below 7.1700 after the PBoC left its Loan Prime Rates (LPR) unchanged. In fact, everything surged against the USD, with both the NZD and AUD rallying 0.8% while EUR/USD is closing in on the 1.0950 level. So, the question becomes, where to from here... and if you need to know, have a quick word with your friendly Treasury Advisor!

Apart from the USD-related moves, financial markets were quiet but, as they say, the trend remains your friend, with treasury yields continuing to track lower - the US 10-year falling 4bps to yield 4.42%. Equity markets posted modest gains, while oil prices firmed 2.7% and gold flatlined.

Yesterday, the PBoC left their Loan Prime Rate's (LPR) unchanged, as widely expected. The 1-year rate, which is the reference rate used for corporate and household loans, was left at a record low of 3.45%, while the 5-year rate, which is used as the reference rate for mortgages, was kept at 4.20% for the fifth straight month. The only other data releases of note were from Germany, where producer prices declined -11.0% in the year to October, which was in line with expectations and an improvement on September's record drop of -14.7%, while the US leading economic index unexpectedly worsened to -0.8% in October.

Finally, we had another central bank governor espousing the dated 'higher-for-longer' rhetoric, with BoE Governor Andrew Bailey stating, "When inflation is

high, we take no chances. It is far too early to be thinking about rate cuts." Markets on the other hand are pricing in a BoE rate cut by the middle of next year.

Just when you thought things couldn't get any crazier...

... Argentina voted in Javier Milei, aka "El Loco", as their new President. No, I hadn't heard of him either, but a little research highlights he is a right-wing populist who espouses 'Trump-esque' policies. He has been described as a wild-haired economist who is a mix of Boris Johnson and the killer doll Chucky, he has a haircut that is a cross between Elvis and Wolverine, and his past includes being the lead singer of a Rolling Stones cover band and a tantric sex instructor. What could possibly go wrong! And yes, I am slightly jealous of the haircut! Despite this 'positive' news, the Argentine peso plummeted over 10%, likely triggering a further devaluation by the central bank. With the country's inflation running at 143%, he certainly has a big job ahead of him.



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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	70.30					CAD	0.8270	0.8995
NZD/USD	0.6028	0.0000	0.0001	0.0001	-0.0003	CHF	0.5331	0.5799
NZD/AUD	0.9193	-0.0008	-0.0023	-0.0044	-0.0074	CNY	4.3194	4.6970
NZD/JPY	89.45	-0.42	-1.30	-2.54	-4.90	DKK	4.1061	4.4658
NZD/EUR	0.5508	-0.0006	-0.0021	-0.0043	-0.0091	FJD	1.3384	1.4556
NZD/GBP	0.4819	-0.0001	-0.0002	-0.0006	-0.0013	HKD	4.6979	5.1094
						KRW	776.14	844.12
AU TWI	61.00					MYR	2.8121	3.0584
AUD/USD	0.6556	0.0006	0.0018	0.0032	0.0047	NOK	6.4456	7.0101
AUD/NZD	1.0871	0.0009	0.0026	0.0049	0.0077	SEK	6.2944	6.8458
AUD/JPY	97.26	-0.37	-1.17	-2.32	-4.65	SGD	0.8062	0.8769
AUD/EUR	0.5988	-0.0002	-0.0008	-0.0019	-0.0056	TWD	18.99	20.66
AUD/GBP	0.5241	0.0004	0.0011	0.0019	0.0025	ZAR	11.06	12.03
USD Index	103.45					EQUITIES		
EUR/USD	1.0944	0.0013	0.0044	0.0087	0.0178		Index	
USD/JPY	148.33	-0.69	-2.19	-4.26	-8.10	NZX50	11,207	
GBP/USD	1.2503	0.0002	0.0008	0.0013	0.0023	ASX200	7,058	
EUR/GBP	0.8750	0.0009	0.0029	0.0058	0.0123	Dow Jones	35,144	
						S&P 500	4,544	
INTEREST RATES			New Zealand		Australia	FTSE100	7,496	
			Mid		Mid	DAX 30	15,901	
30 day bank bills			5.62%		4.34%	Nikkei	33,388	
90 day bank bills			5.67%		4.43%	COMMODITIES		
1 year swap			5.53%		4.47%		USD	
2 year swap			5.09%		4.39%	Brent Crude	82.79	
3 year swap			4.84%		4.36%	Gold	1,977.18	
5 year swap			4.66%		4.56%	Silver	23.46	
10 year swap			4.76%		4.81%	Iron Ore	128.95	
3 year Govt bond			4.89%		4.18%	CRB Index	310.68	
5 year Govt bond			4.83%		4.25%		NZD	
10 year Govt bond			5.01%		4.59%	NZ Carbon	70.50	

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