

Market Alert

Friday 19 January 2024

CURRENCIES	Spot	6mths
NZD/USD	0.6107	-0.0004
NZD/AUD	0.9305	-0.0047
NZD/JPY	90.45	-2.49
NZD/EUR	0.5623	-0.0043
NZD/GBP	0.4810	-0.0005
NZD/CNH	4.4069	-0.0581
AUD/USD	0.6561	0.0029
AUD/EUR	0.6040	-0.0018
EUR/USD	1.0862	0.0078
USD/CNH	7.2160	-0.0910
GBP/USD	1.2689	0.0004
EUR/GBP	0.8556	0.0056

INT RATES	NZ	Australia
OCR/Cash	5.50%	4.35%
90 day bills	5.68%	4.40%
2 year swap	4.74%	4.08%
10 year Govt	4.74%	4.34%

The data and rhetoric supports the "higher for longer" narrative, although ...

... there are still plenty of mixed signals out there. As one of the local banks stated, we are starting to build the case for rate cuts in H2 2024, unless there is a rate hike in H1 2024! As any good FX strategist will say, "It could go down, but it could also go up as well ... or it could go up and then down! Actually, maybe we should just put a fiver each way on number 5 in the 3:30 at Trentham!"

Anyone who was expecting a rapid slowing of the US economy to support their 5-interest rate cuts for 2024 will have gotten a nasty shock after last night's jobless claims report, which saw the number of Americans filing for unemployment fall by 16k to 187k, an

18-month low, which saw continuing claims drop by 26k to 1,806k. against this though, there was some pessimistic news after the Philly Fed business index fell from -7.0 to -10.6 in January.

It was a different story in Australia, where the December jobs report disappointed after employment dropped -65.1k against an expected gain of 17.6k, although, the unemployment rate held steady at an 18-month high at 3.9%. This follows similar trends around the world, where it seems the labour market is tightening at a rapid pace.

The minutes from the ECBs December meeting highlighted the central bank remains cautious on their growth outlook after some ECB members "argued that the December staff projections for growth in the near term might be too optimistic overall" while time was also spent discussing how to bringing inflation back to target as, "Further progress in disinflation rests on a number of benign assumptions and on inflation expectations remaining well anchored. Potential rigidities in prices and wages, and the impact of structural shocks on the economy and inflation dynamics, could well contribute to 'last mile'-type delays in disinflation." The only mention of rate cuts in the minutes was when talking about market expectations.

The overall mixed tone of the data saw equity markets post modest gains, while treasury yields in the longer end continued their grind higher, with the 10-years firming 3bp to 4.14%. FX markets were quiet, with the NZD/USD

and AUD/USD both steady, although they did make short-term lows overnight, while commodity markets were a mixed bag, with oil prices higher on escalating geo-political pressures. We should expect further falls in the price of lithium after China unearthed a million-tonne lithium deposit.

All of the chit-chat.

Fed member, Raphael Bostic, announced, "Inflation seems to be on path towards our 2.0% target, (although) we want to see more evidence – the worse outcome would be to cut rates and then have to raise rates again. I am open to starting rate cut before July if there is convincing evidence inflation is falling faster than anticipated (although my) baseline is for rate reductions starting in Q3."

Goldman Sachs CEO, David Solomon, warned financial markets stating, "I still think there's a risk, particularly around labour, food, gas, that inflation could be stickier than people expect" even though Goldman analysts are currently pricing in 5 rate cuts in 2024!

Geo-political risks continue to mount ...

... especially in the Red Sea, after the US undertook its largest round of strikes against Houthi targets in Yemen following renewed targeting of US shipping in the region, and if that wasn't bad enough, we saw Pakistan launch retaliatory strikes against separatist militants in Iran.



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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	71.60					CAD	0.8244	0.8861
NZD/USD	0.6109	0.0000	0.0000	-0.0004	-0.0018	CHF	0.5305	0.5702
NZD/AUD	0.9307	-0.0009	-0.0025	-0.0047	-0.0075	CNY	4.3939	4.7214
NZD/JPY	90.47	-0.48	-1.27	-2.49	-4.78	DKK	4.1921	4.5037
NZD/EUR	0.5624	-0.0007	-0.0021	-0.0043	-0.0101	FJD	1.3475	1.4477
NZD/GBP	0.4813	-0.0001	-0.0002	-0.0005	-0.0017	HKD	4.7763	5.1314
						KRW	817.35	878.11
AU TWI	61.30					MYR	2.8801	3.0942
AUD/USD	0.6561	0.0006	0.0018	0.0029	0.0033	NOK	6.4344	6.9127
AUD/NZD	1.0743	0.0010	0.0028	0.0051	0.0078	SEK	6.4101	6.8866
AUD/JPY	97.19	-0.38	-1.10	-2.21	-4.40	SGD	0.8208	0.8819
AUD/EUR	0.6040	-0.0002	-0.0006	-0.0018	-0.0063	TWD	19.25	20.68
AUD/GBP	0.5168	0.0004	0.0012	0.0020	0.0021	ZAR	11.56	12.42
USD Index	103.54					EQUITIES		
EUR/USD	1.0862	0.0013	0.0040	0.0078	0.0164		Index	
USD/JPY	148.12	-0.72	-2.08	-4.01	-7.42	NZX50	11,687	
GBP/USD	1.2689	0.0002	0.0006	0.0004	-0.0002	ASX200	7,347	
EUR/GBP	0.8556	0.0009	0.0026	0.0056	0.0120	Dow Jones	37,270	
						S&P 500	4,743	
INTEREST RATES			New Zealand		Australia	FTSE100	7,459	
			Mid		Mid	DAX 30	16,567	
30 day bank bills			5.58%		4.36%	Nikkei	35,466	
90 day bank bills			5.64%		4.40%	COMMODITIES		
1 year swap			5.33%		4.27%		USD	
2 year swap			4.76%		4.09%	Brent Crude	78.98	
3 year swap			4.48%		4.01%	Gold	2,019.59	
5 year swap			4.32%		4.22%	Silver	22.73	
10 year swap			4.44%		4.53%	Iron Ore	135.79	
3 year Govt bond			4.59%		3.89%	CRB Index	301.35	
5 year Govt bond			4.49%		3.97%		NZD	
10 year Govt bond			4.74%		4.35%	NZ Carbon	67.95	

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