

# Market Alert

Thursday 23 May 2024

CURRENCIES	Spot	6mths
NZD/USD	0.6088	-0.0002
NZD/AUD	0.9207	-0.0048
NZD/JPY	95.395	-2.61
NZD/EUR	0.5626	-0.0051
NZD/GBP	0.4789	-0.0007
NZD/CNH	4.4157	-0.0612
AUD/USD	0.6611	0.0032
AUD/EUR	0.6109	-0.0023
EUR/USD	1.0820	0.0093
USD/CNH	7.2544	-0.0983
GBP/USD	1.2710	0.0012
EUR/GBP	0.8508	0.0064

  

INT RATES	NZ	Australia
OCR/Cash	5.50%	4.35%
90 day bills	5.65%	4.39%
2 year swap	5.02%	4.19%
10 year Govt	4.76%	4.37%

## Anyone for poker?

Well ... yesterday's OCR announcement was certainly a game of 2 halves! In the first half, the statement was a lot more hawkish than was originally anticipated, although this was tapered in the second half during the Q&A session!

First up, the statement had lots of references to non-tradeable inflation, with a specific reference to the fact that the Committee had contemplated a rate hike, while the economists at the central bank also upgraded their OCR, CPI, and neutral cash rate projections, which was a surprise. But the statement also referenced the fact that inflation was expected to return to the 1.0%-3.0% band by Q4 2024, while also acknowledging that non-tradeable inflation is far less sensitive to moves in interest rates. Confused? You weren't they only one!

So, the question was asked, is the RBNZ serious about hiking rates, and are they really convinced they won't cut rates until Q4 2025? As one economist put it, "The RBNZ is overestimating the upside risks to the inflation outlook," describing the change in the bank's OCR track forecasts as a "calculated bluff!"

And to some extent, this was backed up in the Q&A when Mr. Orr was asked if he could see a hike by December, as implied by the OCR track, to which he confirmed he 'doesn't buy into that,' while the RBNZ's Chief Economist described the 80% chance of a hike by December as "spurious." Mr. Orr even stated he's confident inflation will return to its range by year-end 2024! Well, we can all debate the merits as to whether the RBNZ are attempting to 'bluff' the financial markets, but all I can say is that I would love to play poker with these guys!

Upon the release of the statement, NZ fixed income yields immediately firmed in the region of 7-10bps as the curve inverted further, while the NZ dollar firmed 1.0% across the board, but post the Q&E session, yields pulled back between 2-3bps, while the NZD gave up about 50% of its prior gains. Opening up this morning, swap rates will hold on to their modest gains although the NZD is flat, or lower than its pre-MPS levels, apart from NZD/AUD which is sitting on the 0.9200 level.

Interestingly, one of the 'big 4' chief economists spoke at an event prior to the meeting emphasising that central banks need to start cutting interest rates

even if inflation remains above target due to the lag effect in monetary policy transmission, stating, "If you wait until you're back in the band, you've actually waited too long" given changes in interest rates usually take 18-months to impact!

## To be fair, stagnant inflation is a global concern.

As highlighted by the FOMC minutes which emphasised, "Participants observed that while inflation had eased over the past year, in recent months there had been a lack of further progress toward the Committee's 2.0% objective" while "various participants mentioned a willingness to tighten policy further should risks to inflation materialize in a way that such an action became appropriate."

In the UK, inflation plummeted to 2.3% in April from March's 3.2%, to reach its lowest level since July 2021. This was enough for PM Rishi Sunak to call a UK general election on the 4th July.

Apart from the RBNZ's 'flip' from their February MPS, markets were quiet. Equity markets fell between -0.75% to -1.00%, commodities were also lower, with oil dropping -1.75%, while bond yields firmed with the 2-years 4bps higher at 4.88% while the 10-years firmed 2bps to 4.43%, which will support the bounce in NZ swap rates.



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# Daily Rates

Thursday 23 May 2024

FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	72.10					CAD	0.8332	0.9054
NZD/USD	0.6088	0.0000	0.0000	-0.0002	-0.0005	CHF	0.5571	0.6053
NZD/AUD	0.9207	-0.0009	-0.0026	-0.0048	-0.0080	CNY	4.4207	4.8063
NZD/JPY	95.395	-0.45	-1.35	-2.61	-4.94	DKK	4.1968	4.5588
NZD/EUR	0.5626	-0.0008	-0.0024	-0.0051	-0.0103	FJD	1.3591	1.4763
NZD/GBP	0.4789	-0.0001	-0.0003	-0.0007	-0.0014	HKD	4.7518	5.1617
						KRW	831.49	903.21
AU TWI	63.20					MYR	2.8543	3.1006
AUD/USD	0.6611	0.0006	0.0018	0.0032	0.0052	NOK	6.5203	7.0828
AUD/NZD	1.0861	0.0010	0.0029	0.0054	0.0088	SEK	6.5428	7.1072
AUD/JPY	103.60	-0.39	-1.18	-2.32	-4.52	SGD	0.8220	0.8929
AUD/EUR	0.6109	-0.0002	-0.0010	-0.0023	-0.0060	TWD	19.64	21.34
AUD/GBP	0.5199	0.0004	0.0012	0.0019	0.0028	ZAR	11.13	12.09
USD Index	104.93					<b>EQUITIES</b>		
EUR/USD	1.0820	0.0014	0.0045	0.0093	0.0189		<b>Index</b>	
USD/JPY	156.69	-0.73	-2.21	-4.24	-8.00	NZX50	11,732	
GBP/USD	1.2710	0.0002	0.0006	0.0012	0.0023	ASX200	7,848	
EUR/GBP	0.8508	0.0010	0.0032	0.0064	0.0129	Dow Jones	39,613	
						S&P 500	5,299	
<b>INTEREST RATES</b>			<b>New Zealand</b>		<b>Australia</b>	FTSE100	8,370	
			<b>Mid</b>		<b>Mid</b>	DAX 30	18,680	
30 day bank bills			5.60%		4.34%	Nikkei	38,617	
90 day bank bills			5.61%		4.39%	<b>COMMODITIES</b>		
1 year swap			5.46%		4.34%		<b>USD</b>	
2 year swap			5.04%		4.20%	Brent Crude	81.66	
3 year swap			4.76%		4.12%	Gold	2,377.96	
5 year swap			4.54%		4.26%	Silver	30.81	
10 year swap			4.59%		4.47%	Iron Ore	117.57	
3 year Govt bond			4.68%		3.94%	CRB Index	344.55	
5 year Govt bond			4.59%		4.00%		<b>NZD</b>	
10 year Govt bond			4.76%		4.34%	NZ Carbon	47.50	

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