

Market Alert

Tuesday 06 August 2024

CURRENCIES	Spot	6mths
NZD/USD	0.5939	-0.0004
NZD/AUD	0.9138	-0.0031
NZD/JPY	85.470	-2.16
NZD/EUR	0.5419	-0.0047
NZD/GBP	0.4649	-0.0005
NZD/CNH	4.2389	-0.0727
AUD/USD	0.6497	0.0017
AUD/EUR	0.5928	-0.0031
EUR/USD	1.0959	0.0084
USD/CNH	7.1372	-0.1177
GBP/USD	1.2776	-0.0002
EUR/GBP	0.8576	0.0062

INT RATES	NZ	Australia
OCR/Cash	5.50%	4.35%
90 day bills	5.33%	4.46%
2 year swap	3.94%	3.63%
10 year Govt	4.22%	3.95%

The end is nigh...

It isn't really but there are sure to be some headlines out there that might make you believe it. On the back of last week's weak US jobs data fears of a recession in the US are growing. This seems a bit crazy but traders are currently pricing in a 60% chance of an emergency 25bp interest rate cut in the next week by the Fed.

There has been a significant narrowing of interest rate differentials between Japan and the US, due to the former taking its key interest rates higher last week (with expectations of more to come), and a sharp dive in US Treasury yields as traders price in rate cuts on fears of an impending US recession. These moves are driving an unwinding of 'carry-trade'

positions, where funds are borrowed in the low yielding currency and invested in the high yielding currency. Overnight the 2-year US Treasury yield was briefly lower than the 10-year for the first time since 2022, however that has since reversed, with the 2-year back to 3.89%, while the 10-year is at 3.78%. This gives some indication of the wild night across financial markets. The volatility index (used as a measure of the risk in financial markets) spiked to its highest level in almost four years.

Traders continue to unwind their carry trades. This has led to further USD weakness, with the USD index down by almost 50pts to 102.72 overnight, which helped the yen continue its stellar run. The USD/JPY dipped below 142.00 overnight but has since recovered to be currently at 143.90. In most circumstances USD weakness would help the NZD and AUD strengthen, but they too were caught up in the sell-off, the NZD and AUD dipping as low as 0.5856 and 0.6364 respectively but have since recovered to be currently slightly below where they ended the local session yesterday.

The 'risk-off' sentiment yesterday saw almost everything coming under selling pressure. The contagion first spread around Asian equity markets, Taiwan's Taicheng ended down 8.4%, its worst day ever, while South Korea's Kospi finished 8.8% lower. Hong Kong's Hang Seng Index and China's Shanghai Composite were down 2.3% and 1.3% respectively.

Australia's S&P/ASX 200 lost 3.7%, and our S&P/NZX 50 fell 1.5%. In Europe, Frankfurt's DAX closed 1.8% lower while the French CAC 40 and UK FTSE 100 both fell around 2%. In the US, the S&P 500 was down 3.31%, the Dow Jones slumped 2.60% and the Russell 2000 fell 3.61%.

In addition, oil has fallen 2.91% overnight, now at a six month low amid fears of diminished demand from its largest consumer, the US. Meanwhile, gold, which is considered a safe haven asset, has fallen 1.35%. Oh dear!

Meanwhile...

While markets were fretting about a US recession, the ISM Services PMI rose to 51.4 in July, topping the 51.0 expected reading, and up from 48.8 in June.

Today we have a policy announcement from the RBA. It is highly unlikely that we will see any change in the interest rate at this meeting. However, it will be very interesting to get an update on how the RBA viewed the latest CPI print and how it sees the economy developing and what that means for the future interest rate track in Australia. We expect the messaging to remain focused on the inflation task at hand, with the risks 'broadly balanced' but moving in the right direction - calming words amidst the global storm.



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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	69.50					CAD	0.8206	0.8981
NZD/USD	0.5939	0.0001	-0.0001	-0.0004	-0.0012	CHF	0.5051	0.5529
NZD/AUD	0.9138	-0.0007	-0.0019	-0.0031	-0.0042	CNY	4.2258	4.6213
NZD/JPY	85.470	-0.41	-1.14	-2.16	-3.79	DKK	4.0421	4.4234
NZD/EUR	0.5419	-0.0008	-0.0024	-0.0047	-0.0087	FJD	1.3187	1.4431
NZD/GBP	0.4649	-0.0001	-0.0004	-0.0005	-0.0002	HKD	4.6240	5.0602
						KRW	811.31	887.83
AU TWI	61.20					MYR	2.6242	2.8717
AUD/USD	0.6497	0.0006	0.0013	0.0017	0.0012	NOK	6.5372	7.1538
AUD/NZD	1.0940	0.0008	0.0019	0.0033	0.0037	SEK	6.2638	6.8547
AUD/JPY	93.52	-0.38	-1.06	-2.06	-3.81	SGD	0.7866	0.8608
AUD/EUR	0.5928	-0.0004	-0.0014	-0.0031	-0.0073	TWD	19.40	21.23
AUD/GBP	0.5085	0.0002	0.0006	0.0012	0.0017	ZAR	10.99	12.03
USD Index	102.65					EQUITIES		
EUR/USD	1.0959	0.0017	0.0045	0.0084	0.0153		Index	
USD/JPY	143.89	-0.71	-1.91	-3.54	-6.11	NZX50	12,264	
GBP/USD	1.2776	0.0005	0.0007	-0.0002	-0.0032	ASX200	7,650	
EUR/GBP	0.8576	0.0009	0.0029	0.0062	0.0133	Dow Jones	38,703	
						S&P 500	5,171	
INTEREST RATES			New Zealand		Australia	FTSE100	8,008	
			Mid		Mid	DAX 30	17,339	
30 day bank bills			5.42%		4.36%	Nikkei	31,458	
90 day bank bills			5.33%		4.46%	COMMODITIES		
1 year swap			4.54%		4.16%		USD	
2 year swap			3.96%		3.65%	Brent Crude	77.11	
3 year swap			3.74%		3.51%	Gold	2,407.62	
5 year swap			3.69%		3.69%	Silver	27.23	
10 year swap			3.93%		4.01%	Iron Ore	104.00	
3 year Govt bond			3.85%		3.48%	CRB Index	317.13	
5 year Govt bond			3.84%		3.59%		NZD	
10 year Govt bond			4.22%		4.00%	NZ Carbon	54.90	

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