

Market Alert

Thursday 19 September 2024

CURRENCIES	Spot	6mths
NZD/USD	0.6194	-0.0004
NZD/AUD	0.9175	-0.0015
NZD/JPY	88.235	-2.01
NZD/EUR	0.5577	-0.0040
NZD/GBP	0.4696	0.0001
NZD/CNH	4.3950	-0.0674
AUD/USD	0.6750	0.0005
AUD/EUR	0.6078	-0.0034
EUR/USD	1.1105	0.0070
USD/CNH	7.0963	-0.1068
GBP/USD	1.3188	-0.0013
EUR/GBP	0.8420	0.0059

INT RATES	NZ	Australia
OCR/Cash	5.25%	4.35%
90 day bills	5.01%	4.47%
2 year swap	3.62%	3.61%
10 year Govt	4.23%	3.95%

Razzle dazzle Powell ...

... stepped up to the plate and smashed it out of the park with a 50bps cut to lower the FOMC rate to the 4.75% - 5.00% range! The rationale for the 'fast start' was that "The Committee has gained greater confidence that inflation is moving sustainably toward 2.0%, and judges that the risks to achieving its employment and inflation goals are roughly in balance." But there was a warning, "In considering any additional adjustments to the target range for the Federal Funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks." The dot-plots suggest there will be 2 further 25bps cuts to bring the FOMC mid-point to 4.375% by year end, with 100bps of cuts to lower the rate to 3.375% in 2025, and then a further 50bps

in 2026 to take the Fed funds rate to their neutral rate at 2.875%. Interestingly, there was 1 dissenter amid an 11-1 vote, which was the first dissent since 2005!

The Q&A session saw Mr Powell confirm the rate cut was a proactive move to maintain the strength of the US economy, and not a race back to ultra-low rates stating, "The decision reflects our growing confidence that the strength in our labour market can be maintained. Consumer spending has remained resilient. The economy is strong overall [although] the labour market has continued to cool. The FOMC remains squarely focused on its dual mandate [stable prices and full employment]. The labour market is in a solid condition, and our intention is to keep it there. We are going to go carefully, meeting by meeting. The rate cut is a strong move, a sign of commitment not to get behind on Policy. It is an appropriate recalibration of monetary policy and will help to keep the labour market strong. The objective here is to restore price stability without the kind of painful increase in unemployment that has sometimes come with this. We don't think we're behind; we think this is timely. No-one should look at 50bps and say this is the new pace. We're not going back to the world of ultra-low interest rates."

And on that last point, it should be noted that the FOMC rate is only projected to revert to their perceived neutral rate by 2026 calendar year end.

Ultimately, the market has taken the Governor at his word with a steady rate cutting cycle designed to protect the

jobs market, which saw bond yields and swap rates move higher. As I type, the US 2 and 10-year yields have steepened the curve, with the 2-year 1bps higher at 3.61%, while the 10-year is 4bps higher at 3.71%. The USD index came under selling pressure immediately following the announcement, although the Q&A session saw it recover those losses. The NZD/USD was trading at 0.6214 prior to the announcement, rallied to 0.6268, and is now back at 0.6194, while the AUD/USD went from 0.6768 to 0.6820 and back to 0.6750.

Following the announcement equity markets gave up their prior gains to close down on the day while commodity markets were 'mixed' with oil prices -1.0% lower. Gold prices immediately spiked but then gave up those gains. Looking ahead, we have the BoJ later today and the BoE tonight.

And the best of the rest

UK inflation steadied at 2.2% in August, the same as in July, and in line with expectations, New Zealand Q3 consumer confidence firmed from 82.2 to 90.8 while the current account deficit improved from -6.8% of GDP to -6.7%, although it was worse than the -6.5% expected.



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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	71.00					CAD	0.8432	0.9190
NZD/USD	0.6194	-0.0001	0.0001	-0.0004	-0.0012	CHF	0.5243	0.5716
NZD/AUD	0.9175	-0.0005	-0.0008	-0.0015	-0.0010	CNY	4.3827	4.7768
NZD/JPY	88.235	-0.38	-1.06	-2.01	-3.51	DKK	4.1589	4.5336
NZD/EUR	0.5577	-0.0008	-0.0018	-0.0040	-0.0077	FJD	1.3478	1.4693
NZD/GBP	0.4696	-0.0001	0.0001	0.0001	0.0005	HKD	4.8252	5.2601
						KRW	816.78	890.39
AU TWI	61.90					MYR	2.6266	2.8634
AUD/USD	0.6750	0.0003	0.0008	0.0005	-0.0008	NOK	6.5631	7.1540
AUD/NZD	1.0896	0.0006	0.0009	0.0014	-0.0001	SEK	6.3274	6.8976
AUD/JPY	96.13	-0.36	-1.08	-2.04	-3.78	SGD	0.8027	0.8750
AUD/EUR	0.6078	-0.0005	-0.0015	-0.0034	-0.0081	TWD	19.81	21.60
AUD/GBP	0.5118	0.0002	0.0005	0.0008	0.0010	ZAR	10.87	11.85
USD Index	101.06					EQUITIES		
EUR/USD	1.1105	0.0014	0.0038	0.0070	0.0130		Index	
USD/JPY	142.45	-0.61	-1.74	-3.16	-5.45	NZX50	12,587	
GBP/USD	1.3188	-0.0001	-0.0002	-0.0013	-0.0052	ASX200	8,142	
EUR/GBP	0.8420	0.0010	0.0029	0.0059	0.0127	Dow Jones	41,495	
						S&P 500	5,624	
INTEREST RATES			New Zealand		Australia	FTSE100	8,254	
			Mid		Mid	DAX 30	18,711	
30 day bank bills			5.26%		4.36%	Nikkei	36,380	
90 day bank bills			5.01%		4.47%	COMMODITIES		
1 year swap			4.21%		3.96%		USD	
2 year swap			3.66%		3.63%	Brent Crude	72.80	
3 year swap			3.50%		3.51%	Gold	2,549.29	
5 year swap			3.52%		3.72%	Silver	29.87	
10 year swap			3.81%		4.01%	Iron Ore	91.98	
3 year Govt bond			3.71%		3.48%	CRB Index	332.17	
5 year Govt bond			3.79%		3.55%		NZD	
10 year Govt bond			4.23%		3.95%	NZ Carbon	61.50	

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