

Market Alert

Thursday 10 October 2024

CURRENCIES	Spot	6mths
NZD/USD	0.6057	0.0010
NZD/AUD	0.9021	0.0004
NZD/JPY	90.435	-1.93
NZD/EUR	0.5538	-0.0035
NZD/GBP	0.4635	0.0009
NZD/CNH	4.2984	-0.0478
AUD/USD	0.6714	0.0007
AUD/EUR	0.6138	-0.0042
EUR/USD	1.0937	0.0086
USD/CNH	7.0964	-0.0905
GBP/USD	1.3068	-0.0006
EUR/GBP	0.8368	0.0068

INT RATES	NZ	Australia
OCR/Cash	4.75%	4.35%
90 day bills	4.72%	4.47%
2 year swap	3.61%	3.88%
10 year Govt	4.41%	4.26%

What a pleasant change that was!

What is this? A new approach from the RBNZ to not generate headlines? Whatever it was, it was a pleasant surprise!

Yes, the RBNZ 'played' to the audience delivering a -50bps rate cut to take the OCR down to 4.75%. The statement didn't provide any forward guidance, acknowledged that "The committee discussed the respective benefits of a 25bps versus a 50bps cut in the OCR," and provided some optimism as the "Members agreed that an OCR of 4.75% is still restrictive," suggesting that if everything plays out as expected, further cuts are coming soon. Apart from that, it was as you would expect ... "Future changes to the OCR would depend on its evolving assessment of the economy. The

Committee assesses that annual consumer price inflation is within its 1.00% to 3.00% inflation target range and converging on the 2.00% midpoint," and that, "Economic activity in New Zealand is subdued. Business investment and consumer spending have been weak, and employment conditions continue to soften."

I find the RBNZ's inflation comments interesting, and the general commentary that slowing inflation justified the bigger cut, but the issue is, we haven't had any inflation updates since the last RBNZ meeting in August. Yes, we had some PPI updates, but they were higher, although we did have some food price numbers which were lower. Perhaps the Governor knows something about next week's Q3 CPI number that we don't?

Just as important ...

... was the release of the Fed minutes from its September cut which highlighted the "Substantial majority supported the 50bp cut although some members would have preferred a 25bp cut citing still-elevated inflation and solid growth. The 50bps reduction should not be interpreted as evidence of a less favourable economic outlook, or as a signal that the pace of policy easing would be more rapid than participants' assessments. Risks to employment and inflation goals now seen as roughly in balance. Economic activity is expanding at a solid pace, job gains slowed but unemployment remains low." Michelle Bowman dissented, preferring a -25bp cut with core inflation remaining above target.

So, what did it all mean? Well, the Fed minutes underpinned bond yields with both the 2- and 5-year 5bps higher at 4.02% and 4.07%, respectively, and it should be noted that the US 10-year is becoming increasingly comfortable above the 4.00% level. This strength in the US market will limit any NZ related weakness, with local swap rates likely to open around the same levels as yesterday with a steepening bias.

The NZD was where most of the weakness was found, which coincided with another leg higher from the USD-index. The NZD is broadly -1.0% lower, as compared to the AUD, which weakened -0.5%, while the USD-index firmed 0.5%. The NZD/USD is at the base of its 0.6050-0.6250 range, although the NZD/JPY is holding in above the 90.00 level, with USD/JPY at 149.25.

Equity markets had a positive session rallying 0.5%-1.0%, despite the DoJ announcement it is considering forcing Google to sell parts of its operations as a remedy in its monopoly case, although commodity markets weakened with oil prices falling.

RBA Assistant Governor, Christopher Kent, acknowledged the cost of the Covid inspired Term Funding Facility ("TFF") stating, "The TFF delivered on its goals set at the start of the pandemic. The total cost of the TFF to the RBA is estimated to have been AUD9bn. A term lending tool of this kind would be worth considering again if warranted by extreme circumstances, but it would do so only after consideration of a wide range of scenarios and the associated risks."



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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	70.60					CAD	0.8298	0.9201
NZD/USD	0.6057	0.0001	0.0005	0.0010	0.0025	CHF	0.5209	0.5777
NZD/AUD	0.9021	-0.0003	-0.0002	0.0004	0.0029	CNY	4.2862	4.7520
NZD/JPY	90.435	-0.37	-1.09	-1.93	-3.38	DKK	4.1290	4.5784
NZD/EUR	0.5538	-0.0006	-0.0018	-0.0035	-0.0068	FJD	1.3290	1.4737
NZD/GBP	0.4635	0.0001	0.0004	0.0009	0.0025	HKD	4.7056	5.2177
						KRW	815.10	903.81
AU TWI	62.30					MYR	2.5915	2.8736
AUD/USD	0.6714	0.0003	0.0007	0.0007	-0.0002	NOK	6.5266	7.2363
AUD/NZD	1.1083	0.0002	0.0001	-0.0008	-0.0048	SEK	6.2965	6.9818
AUD/JPY	100.23	-0.39	-1.19	-2.20	-4.13	SGD	0.7915	0.8777
AUD/EUR	0.6138	-0.0006	-0.0020	-0.0042	-0.0098	TWD	19.53	21.66
AUD/GBP	0.5136	0.0002	0.0005	0.0007	0.0008	ZAR	10.68	11.85
USD Index	102.92					EQUITIES		
EUR/USD	1.0937	0.0015	0.0045	0.0086	0.0177		Index	
USD/JPY	149.30	-0.64	-1.92	-3.41	-6.17	NZX50	12,776	
GBP/USD	1.3068	0.0000	-0.0001	-0.0006	-0.0020	ASX200	8,187	
EUR/GBP	0.8368	0.0012	0.0035	0.0068	0.0147	Dow Jones	42,429	
USD/CNY	7.08	-0.0193	-0.0538	-0.0996	-0.1860	S&P 500	5,784	
						FTSE100	8,244	
INTEREST			New Zealand		Australia	DAX 30	19,255	
RATES			Mid		Mid	Nikkei	39,278	
30 day bank bills			4.91%		4.36%	COMMODITIES		
90 day bank bills			4.72%		4.47%		USD	
1 year swap			4.02%		4.14%	Brent Crude	76.67	
2 year swap			3.65%		3.90%	Gold	2,607.98	
3 year swap			3.56%		3.80%	Silver	30.45	
5 year swap			3.63%		4.01%	Iron Ore	106.30	
10 year swap			3.98%		4.30%	CRB Index	340.59	
3 year Govt bond			3.77%		3.77%		NZD	
5 year Govt bond			3.92%		3.86%	NZ Carbon	62.75	
10 year Govt bond			4.41%		4.25%			

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