

Market Alert

Tuesday 1 February 2022

CURRENCIES	Spot	6mths
NZD/USD	0.6577	-0.0027
NZD/AUD	0.9302	-0.0050
NZD/JPY	75.58	-0.57
NZD/EUR	0.5853	-0.0057
NZD/GBP	0.4889	-0.0015
NZD/CNH	4.1905	0.0257
AUD/USD	0.7071	0.0009
AUD/EUR	0.6292	-0.0027
EUR/USD	1.1237	0.0063
USD/CNH	6.3724	0.0655
GBP/USD	1.3453	-0.0013
EUR/GBP	0.8353	0.0055

INT RATES	NZ	Australia
OCR/Cash	0.75%	0.10%
90 day bills	1.10%	0.08%
2 year swap	2.45%	1.22%
10 year Govt	2.60%	1.90%

Pinch, punch, first of the month!

Aucklanders, welcome back to the office, or the bedroom if you're working from home!

Over the weekend, the Federal Reserve's preferred inflation measure, the PCE deflator, came out in line with expectations at +0.4% on the month and +5.8% on the year, while the headline University of Michigan headline print eased back to 67.2 when a more upbeat 68.8 was expected, but against this, overnight the Chicago PMI underpinned the inflationary pressures when the index

hit 65.2, when 61.5 was expected, while the Dallas Fed manufacturing index fell to 2.0 when 8.0 had been expected.

In the Eurozone, quarterly inflation, on a semi-annual basis, fell to its lowest level in three quarters, printing at +0.3% although the annualised print was inline with expectations at +4.6%. Meanwhile, the annual inflation rate in Germany fell for the first time in 7 months to 4.9% in January from its 30-year high of 5.3% in December. This was against market forecasts of 4.3%.

Overall, equity markets have finished January in 'recovery' mode with international bourses up between +0.5% and +1.5%, with the Nasdaq the outperformer rallying +2.2%. Commodities have also cemented gains, while the US T-bond has been relatively stable at 1.775%. This stability has also been seen in FX markets with the AUD and EUR posting solid gains, although the NZD under-performed which saw the NZD/AUD ease to 0.9300.

Food for thought

One trait we have noticed recently is for Jerome Powell to 'leak' strategy into the market via his Federal Reserve colleagues, and, with Wall Street's bankers at odds over how fast and far the Fed will raise interest rates, perhaps the balance sheet comments overnight are 'testing' the market for a more aggressive reduction of their balance sheet.

The Federal Reserve San Francisco President, Mary Daly, gave some insight when she announced, "The yield curve is well within its historical range. We don't control the longer end of the yield curve (although) the yield curve is just another input into assessment of financial conditions," before she turned to the balance sheet stating, "We will be deliberating about the Fed's balance sheet at coming meetings. The balance sheet policies will be predictable and will be in the background. We will adjust it if needed but won't be adjusting it meeting by meeting."

Finally, she wrapped up with, "Raising rates will bring demand down. I don't see stagflation in the United States, and I don't see evidence that high inflation is getting embedded into psychology."

We also had Kansas City Fed President, Esther George, state, "The current 'very accommodative' stance of monetary policy is out of sync with the economic outlook. Potential costs associated with an excessively large Fed balance sheet should not be ignored. A more aggressive reduction of the Fed's balance sheet could allow for a shallower path on rates. It may be appropriate to move earlier on the balance sheet relative to the Fed's last tightening cycle."

Finally, if you thought rents in New Zealand and Australia were high, spare a thought for renters in Zurich where a woman is offering to rent a two-person tent on her balcony with "a view of the starry evening sky" for just USD540 a month.



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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	70.87					CAD	0.8348	0.8974
NZD/USD	0.6577	-0.0003	-0.0012	-0.0027	-0.0069	CHF	0.6094	0.6551
NZD/AUD	0.9302	-0.0005	-0.0021	-0.0050	-0.0113	CNY	4.1832	4.4970
NZD/JPY	75.58	-0.05	-0.22	-0.57	-1.62	DKK	4.3551	4.6819
NZD/EUR	0.5853	-0.0006	-0.0023	-0.0057	-0.0143	FJD	1.4267	1.5338
NZD/GBP	0.4889	-0.0001	-0.0006	-0.0015	-0.0044	HKD	5.1265	5.5111
						KRW	795.41	855.09
AU TWI	59.30					MYR	2.7545	2.9612
AUD/USD	0.7071	0.0001	0.0004	0.0009	0.0012	NOK	5.8474	6.2862
AUD/NZD	1.0750	0.0006	0.0024	0.0058	0.0132	SEK	6.1249	6.5845
AUD/JPY	81.26	-0.01	-0.05	-0.18	-0.77	SGD	0.8886	0.9552
AUD/EUR	0.6292	-0.0003	-0.0011	-0.0027	-0.0079	TWD	18.25	19.62
AUD/GBP	0.5256	0.0001	0.0005	0.0012	0.0017	ZAR	10.0995	10.8573
USD Index	96.61					EQUITIES		
EUR/USD	1.1237	0.0006	0.0025	0.0063	0.0162		Index	
USD/JPY	114.93	-0.02	-0.14	-0.40	-1.27	NZX50	11,889	
GBP/USD	1.3453	-0.0002	-0.0007	-0.0013	-0.0021	ASX200	6,972	
EUR/GBP	0.8353	0.0006	0.0023	0.0055	0.0133	Dow Jones	34,996	
						S&P 500	4,486	
						FTSE100	7,464	
						DAX 30	15,471	
						Nikkei	27,002	
INTEREST RATES		New Zealand		Australia		COMMODITIES		
		Borrow	Invest	Borrow	Invest		USD	
30 day bank bills		0.88%	0.85%	0.00%	0.02%	Dubai Light	87.53	
90 day bank bills		1.13%	1.10%	0.10%	0.06%	Brent Crude	89.13	
FRA 90d in 3mths		1.82%	1.79%	0.36%	0.33%	Gold	1,798.55	
FRA 180d in 6mths		2.52%	2.49%	1.03%	1.01%	Silver	22.45	
1 year swap		2.00%	1.98%	0.60%	0.59%	CRB Index	268.81	
2 year swap		2.46%	2.44%	1.23%	1.21%		NZD	
3 year swap		2.64%	2.61%	1.56%	1.56%	NZ Carbon	76.25	
5 year swap		2.77%	2.75%	1.85%	1.84%			
10 year swap		2.81%	2.79%	2.18%	2.16%			
10 year Govt bond			2.58%	1.90%				

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