

Market Alert

Thursday 24 February 2022

| CURRENCIES | Spot | 6mths |
|------------|--------|---------|
| NZD/USD | 0.6777 | -0.0024 |
| NZD/AUD | 0.9361 | -0.0059 |
| NZD/JPY | 77.90 | -0.67 |
| NZD/EUR | 0.5991 | -0.0063 |
| NZD/GBP | 0.5003 | -0.0013 |
| NZD/CNH | 4.2772 | 0.0313 |
| AUD/USD | 0.7240 | 0.0021 |
| AUD/EUR | 0.6401 | -0.0026 |
| EUR/USD | 1.1311 | 0.0079 |
| USD/CNH | 6.3128 | 0.0685 |
| GBP/USD | 1.3547 | -0.0012 |
| EUR/GBP | 0.8349 | 0.0066 |

| INT RATES | NZ | Australia |
|--------------|-------|-----------|
| OCR/Cash | 1.00% | 0.10% |
| 90 day bills | 1.26% | 0.08% |
| 2 year swap | 2.73% | 1.53% |
| 10 year Govt | 2.79% | 2.27% |

The RBNZ played with a straight bat

and raised the OCR by 25 basis points to 1.00%, signalling it will need to hike further. However, the googly was in the forecasts as the RBNZ increased their forecasts for the OCR to 2.25% by the end of 2022 and 3.25% by December 2023. While the decision to start reducing its balance sheet from July was a surprise, with approximately NZD50 billion of New Zealand government bonds on its balance sheet from the LSAP programme.

The central bank will not replace maturing bonds, letting them naturally roll-off their books. RBNZ will also sell bonds back to the New Zealand Treasury to the tune of NZD5 billion per fiscal year. Interestingly, the policy statement said the decision to move by 25 instead of 50 bps was finely balanced.

The press conference was pretty subdued as well. We had the usual debate about the impact on house prices, with the RBNZ more confident in the "direction than the magnitude" of future hikes. RBNZ Governor, Adrian Orr, acknowledged that some homeowners, especially recent buyers, may face a negative equity situation. There was the usual caveat that the supply chain crunch hasn't gone away as, "The world is now in a position where demand is relatively robust, but supply has struggled to keep up." Mr Orr finished with "I won't rule out a 50bp rate hike, if needed."

Overall, the tone of the statement, and the Q&A, was more 'hawkish' than anticipated, which flattened the local interest rate curve with the 2 and 3-year NZ IRS price rallying 13 bps, while the 5 and 10-year firmed 10 and 5 pips respectively. The NZD was more subdued rallying a mere 40 pips against the USD.

As the RBA maintains a close eye on wage inflation in Australia, yesterday's Q4 wage price index at 0.7% on the quarter was bang-in-line with expectations and a touch firmer than Q3's 0.6%. On an

annualised basis, the 2.3% print was a miss against the expected 2.4% however, up on the previous 2.2%. Private sector wage growth grew at 2.4% versus public wages at 2.1%.

Meanwhile, trouble is still brewing in the Ukraine. Reuters announced two convoys of military equipment were moving towards Donetsk. President Biden came out swinging, and stated "This is a flagrant violation of international law. Putin is setting up a rational to go much deeper into Ukraine. This is an invasion."

In central bank talk, Fed President of Atlanta, Raphael Bostic, announced, "The Fed needs to move off its emergency policy stance and can do so without jeopardizing employment" while it was rent-a-quote day for the ECB. Holzman was first with "a rate hike could come in December." Vasle said, "the time seems right for policy to start the process of gradual normalization." ECBs De Guindos add "the ECB will re-adjust asset purchases if needed, then see about rate hikes," before de Cos finished with, "the ECB does not rule out a lift off should conditions be met earlier than expected."

Financial markets trended overnight

Equity markets fell off between -0.5% and -1.0%, while commodities continued their recent moves higher. The T-bond firmed to 1.97%, as did the NZD and AUD amid broad USD support.



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Daily Rates

Thursday 24 February 2022

| FX | Spot | FECs (mid) | | | | Spot Mid | | |
|-----------------------|--------|--------------------|---------------|------------------|---------------|--------------------|--------------|---------|
| | Mid | 1mth | 3mths | 6mths | 12mths | NZD/... | AUD/... | |
| NZ TWI | 72.43 | | | | | CAD | 0.8624 | 0.9213 |
| NZD/USD | 0.6777 | -0.0004 | -0.0010 | -0.0024 | -0.0057 | CHF | 0.6221 | 0.6645 |
| NZD/AUD | 0.9361 | -0.0007 | -0.0024 | -0.0059 | -0.0123 | CNY | 4.2784 | 4.5707 |
| NZD/JPY | 77.90 | -0.07 | -0.26 | -0.67 | -1.81 | DKK | 4.4571 | 4.7616 |
| NZD/EUR | 0.5991 | -0.0007 | -0.0026 | -0.0063 | -0.0152 | FJD | 1.4361 | 1.5342 |
| NZD/GBP | 0.5003 | -0.0002 | -0.0005 | -0.0013 | -0.0036 | HKD | 5.2892 | 5.6506 |
| | | | | | | KRW | 808.65 | 863.90 |
| AU TWI | 60.80 | | | | | MYR | 2.8410 | 3.0350 |
| AUD/USD | 0.7240 | 0.0001 | 0.0008 | 0.0021 | 0.0035 | NOK | 6.0238 | 6.4353 |
| AUD/NZD | 1.0683 | 0.0008 | 0.0028 | 0.0068 | 0.0142 | SEK | 6.3589 | 6.7933 |
| AUD/JPY | 83.23 | -0.01 | -0.06 | -0.19 | -0.85 | SGD | 0.9121 | 0.9744 |
| AUD/EUR | 0.6401 | -0.0003 | -0.0011 | -0.0026 | -0.0080 | TWD | 18.92 | 20.21 |
| AUD/GBP | 0.5344 | 0.0002 | 0.0008 | 0.0020 | 0.0032 | ZAR | 10.2247 | 10.9232 |
| USD Index | 96.17 | | | | | EQUITIES | | |
| EUR/USD | 1.1311 | 0.0008 | 0.0032 | 0.0079 | 0.0198 | | Index | |
| USD/JPY | 114.97 | -0.04 | -0.21 | -0.59 | -1.72 | NZX50 | 12,134 | |
| GBP/USD | 1.3547 | -0.0002 | -0.0006 | -0.0012 | -0.0016 | ASX200 | 7,206 | |
| EUR/GBP | 0.8349 | 0.0007 | 0.0027 | 0.0066 | 0.0156 | Dow Jones | 33,375 | |
| | | | | | | S&P 500 | 4,270 | |
| | | | | | | FTSE100 | 7,498 | |
| | | | | | | DAX 30 | 14,631 | |
| | | | | | | Nikkei | 26,450 | |
| INTEREST RATES | | New Zealand | | Australia | | COMMODITIES | | |
| | | Borrow | Invest | Borrow | Invest | | USD | |
| 30 day bank bills | | 1.11% | 1.07% | 0.02% | 0.02% | Dubai Light | 93.49 | |
| 90 day bank bills | | 1.30% | 1.26% | 0.10% | 0.06% | Brent Crude | 96.94 | |
| FRA 90d in 3mths | | 2.01% | 1.94% | 0.38% | 0.35% | Gold | 1,907.70 | |
| FRA 180d in 6mths | | 2.72% | 2.69% | 1.21% | 1.20% | Silver | 24.54 | |
| 1 year swap | | 2.22% | 2.20% | 0.69% | 0.69% | CRB Index | 284.05 | |
| 2 year swap | | 2.74% | 2.72% | 1.54% | 1.52% | | NZD | |
| 3 year swap | | 2.92% | 2.90% | 1.95% | 1.94% | NZ Carbon | 80.75 | |
| 5 year swap | | 3.00% | 2.98% | 2.24% | 2.23% | | | |
| 10 year swap | | 3.03% | 3.01% | 2.52% | 2.51% | | | |
| 10 year Govt bond | | | 2.77% | | 2.27% | | | |

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