

Market Alert

Friday 27 May 2022

| CURRENCIES | Spot | 6mths |
|------------|--------|---------|
| NZD/USD | 0.6472 | -0.0022 |
| NZD/AUD | 0.9123 | -0.0047 |
| NZD/JPY | 82.26 | -1.18 |
| NZD/EUR | 0.6036 | -0.0086 |
| NZD/GBP | 0.5137 | -0.0027 |
| NZD/CNH | 4.3798 | -0.0031 |
| AUD/USD | 0.7094 | 0.0012 |
| AUD/EUR | 0.6615 | -0.0060 |
| EUR/USD | 1.0723 | 0.0117 |
| USD/CNH | 6.7674 | 0.0185 |
| GBP/USD | 1.2599 | 0.0024 |
| EUR/GBP | 0.8511 | 0.0077 |

| INT RATES | NZ | Australia |
|--------------|-------|-----------|
| OCR/Cash | 2.00% | 0.35% |
| 90 day bills | 2.30% | 1.06% |
| 2 year swap | 3.76% | 2.85% |
| 10 year Govt | 3.46% | 3.19% |

Numb

Sung by the old favourite band, Linkin Park, and Jay-Z, 'Numb' sums up how most economists felt this morning after the US economy contracted by an annualised 1.5% in Q1 2022, worse than initial estimates with a 1.4% decline. The pullback produced the worst quarter since Q2 2020, as downward revisions in private inventories, residential investment and a swelling trade deficit generated the decline.

On a positive note, the US economy is projected to rebound in Q2 however

initial jobless claims have totalled 210,000 – a decline of 8,000 from the previous week – highlighting the strong job market. Don't mention housing yet, after pending home sales decreased 3.9% in April for the sixth straight consecutive month of declines.

Following Wednesday's RBNZ meeting, RBNZ Governor, Adrian Orr, was on the news rounds fiddling like Nero while Wellington burned, stating, "The risk of an international recession has risen (although) the RBNZ does not expect a recession. While it's not possible to rule out a recession you can't anticipate one either. NZ household balance sheets can cope with higher rates (although) interest rates in NZ must stay above neutral for a long time. We want to move rates quickly (although the) economic outlook for China is a danger. Government spending is adding to aggregate demand, adding to inflation pressure in the short-term. Unemployment is expected to rise."

In terms of what the Governor is watching to pause the hiking cycle, or even reverse it, Mr Orr stated, "aggregate demand, the construction sector, and inflation expectations across the 2 year and 5 year horizons."

The Australian 'Business Conditions and Sentiment' survey showed "Over a third of all businesses (38%) expect to increase their prices by more than usual, with the majority stating the costs of products or services used by the business (92%), and rising fuel or energy prices (78%), were the main contributing factors. Nearly half (48%) of all businesses

have no plans to increase their prices of goods or services over the next 3-months with the reason for not increasing prices being to retain customers (46%) and having fixed price contracts (46%). Almost one in five businesses (18%) have planned capital expenditure over the next 3 months." With a slowdown coming, Q1 capex contracted 0.3% on the quarter against an expected 1.5% increase.

The PBoC has met with 24 financial institutions urging "lenders to 'go all out to stabilise the fundamentals of the economy,' and to keep steadily increasing property loans." Meanwhile, Chinese state TV reports the Shanghai port is back to 95% capacity. Fonterra have set the 2022/23 season forecast payout to be between NZD8.25-NZD9.75 per kg/MS, with a mid-point of NZD9.00.

The Russian central bank slashed its benchmark interest rate by 300bps to 11.0%.

In amongst all of this pessimistic news, equity markets rallied for a second successive day on strong earnings and the implication that the Federal Reserve's hiking cycle may not be as aggressive as previously feared as per the minutes. This saw the US 10-year yield ease a touch, back to 2.74%, while the NZD and AUD flatlined.

RIP

Ray Liotta ... you gave us Goodfellas and held your own with heavyweights Robert De Niro and Joe "I'll-whack-you" Pesci.



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Daily Rates

Friday 27 May 2022

| FX | Spot | FECs (mid) | | | | Spot Mid | | |
|-----------------------|--------|--------------------|---------|------------------|---------|--------------------|--------------|--------|
| | Mid | 1mth | 3mths | 6mths | 12mths | NZD/... | AUD/... | |
| NZ TWI | 72.12 | | | | | CAD | 0.8270 | 0.9064 |
| NZD/USD | 0.6472 | -0.0003 | -0.0009 | -0.0022 | -0.0045 | CHF | 0.6209 | 0.6806 |
| NZD/AUD | 0.9123 | -0.0009 | -0.0025 | -0.0047 | -0.0064 | CNY | 4.3619 | 4.7796 |
| NZD/JPY | 82.26 | -0.13 | -0.49 | -1.18 | -2.83 | DKK | 4.4912 | 4.9221 |
| NZD/EUR | 0.6036 | -0.0012 | -0.0040 | -0.0086 | -0.0181 | FJD | 1.3951 | 1.5289 |
| NZD/GBP | 0.5137 | -0.0003 | -0.0011 | -0.0027 | -0.0063 | HKD | 5.0800 | 5.5679 |
| | | | | | | KRW | 816.47 | 894.90 |
| AU TWI | 62.60 | | | | | MYR | 2.8426 | 3.1160 |
| AUD/USD | 0.7094 | 0.0003 | 0.0009 | 0.0012 | 0.0001 | NOK | 6.1809 | 6.7746 |
| AUD/NZD | 1.0960 | 0.0011 | 0.0030 | 0.0056 | 0.0078 | SEK | 6.3881 | 7.0016 |
| AUD/JPY | 90.16 | -0.06 | -0.29 | -0.83 | -2.48 | SGD | 0.8885 | 0.9739 |
| AUD/EUR | 0.6615 | -0.0007 | -0.0025 | -0.0060 | -0.0151 | TWD | 19.03 | 20.86 |
| AUD/GBP | 0.5630 | 0.0003 | 0.0004 | -0.0001 | -0.0029 | ZAR | 10.17 | 11.15 |
| USD Index | 101.84 | | | | | EQUITIES | | |
| EUR/USD | 1.0723 | 0.0015 | 0.0055 | 0.0117 | 0.0254 | | Index | |
| USD/JPY | 127.10 | -0.14 | -0.58 | -1.39 | -3.52 | NZX50 | 11,103 | |
| GBP/USD | 1.2599 | 0.0001 | 0.0010 | 0.0024 | 0.0067 | ASX200 | 7,106 | |
| EUR/GBP | 0.8511 | 0.0012 | 0.0037 | 0.0077 | 0.0154 | Dow Jones | 32,120 | |
| | | | | | | S&P 500 | 4,065 | |
| | | | | | | FTSE100 | 7,565 | |
| | | | | | | DAX 30 | 14,231 | |
| | | | | | | Nikkei | 26,605 | |
| INTEREST RATES | | New Zealand | | Australia | | | | |
| | | Mid | | Mid | | | | |
| 30 day bank bills | | 2.01% | | 0.47% | | | | |
| 90 day bank bills | | 2.30% | | 1.06% | | | | |
| 1 year swap | | 3.42% | | 2.38% | | | | |
| 2 year swap | | 3.76% | | 2.85% | | | | |
| 3 year swap | | 3.77% | | 3.01% | | | | |
| 5 year swap | | 3.71% | | 3.29% | | | | |
| 10 year swap | | 3.72% | | 3.52% | | | | |
| 3 year Govt bond | | 3.34% | | 2.73% | | | | |
| 5 year Govt bond | | 3.37% | | 2.94% | | | | |
| 10 year Govt bond | | 3.51% | | 3.19% | | | | |
| | | | | | | COMMODITIES | | |
| | | | | | | | USD | |
| | | | | | | Brent Crude | 117.33 | |
| | | | | | | Gold | 1,852.07 | |
| | | | | | | Silver | 22.01 | |
| | | | | | | Iron Ore | 130.00 | |
| | | | | | | CRB Index | 335.09 | |
| | | | | | | | NZD | |
| | | | | | | NZ Carbon | 77.00 | |

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