

Market Alert

Friday 6 May 2022

CURRENCIES	Spot	6mths
NZD/USD	0.6419	-0.0018
NZD/AUD	0.9037	-0.0038
NZD/JPY	83.45	-1.10
NZD/EUR	0.6089	-0.0084
NZD/GBP	0.5194	-0.0024
NZD/CNH	4.2947	0.0182
AUD/USD	0.7103	0.0010
AUD/EUR	0.6737	-0.0066
EUR/USD	1.0543	0.0118
USD/CNH	6.6902	0.0466
GBP/USD	1.2359	0.0024
EUR/GBP	0.8531	0.0079

INT RATES	NZ	Australia
OCR/Cash	1.50%	0.35%
90 day bills	2.12%	0.87%
2 year swap	3.89%	3.15%
10 year Govt	3.73%	3.38%

Grim reading from the BoE

And these risks also apply to just about every economy around the world!

The BoE raised its key cash rate by 25bps to 1.0%, which was the central bank's fourth consecutive rate hike taking borrowing costs to their highest levels since 2009. The decision came in line with expectations although, 3 members voted for a bigger 50bps increase.

The BoE Governor, Andrew Bailey, is expecting UK economic growth to "slow sharply" while inflation will "fall relatively quickly" after it peaks at slightly above 10%

in Q4. While the central bank predicts the UK will avoid a technical recession, two consecutive quarters of contraction, it warned output will collapse by close to 1.0% in the final quarter of this year. In 2023, annual GDP is expected to shrink by 0.25%.

Yesterday's relief rally in equity markets was the biggest gain on a Fed day since December 2008 (a rate-cut day), and the greatest upside-day for the S&P on a Fed rate-hike day since November 1978. These gains evaporated today with international equity markets a sea of red. At time of writing, the Dow has lost over 1,000 points, while the S&P and Nasdaq have fallen 3.75% and 5.0% as investors continue to bet on bigger interest rate hikes to rein on inflation and slowing growth. Bonds were also sold aggressively, which saw the 10-year US yield surge to 3.045%, while the German bund breached the 1.00% level to reach 1.04%. The USD-index rebound back to its pre-Fed level which saw the AUD and NZD ease back to the 0.7100 and 0.6425 levels.

It's grim reading all round

Ahead of tonight's non-farm payroll numbers, US non-farm labour productivity slumped 7.5% on an annualised basis, in what was the steepest contraction since Q3 1947. Meanwhile unit labour costs surged 11.6%! Initial jobless claims exceeded forecasts at 200,000 while continuing claims fell below expectations at 1,384,000.

The Reserve Bank of New Zealand ("RBNZ") Governor, Adrian Orr, spoke to the Governments Finance and Expenditure select committee and, true to form, told everyone how brilliant the RBNZ was and how "courageous" they were in starting the tightening cycle before many of its peers. Before adding, "Being too out of step with others in terms of monetary policy has risks. We don't see stagflation as a core risk. We'll be taking heat out of economy by raising the OCR."

In Australia there was good news and bad news after the March trade balance reached a AUD9,314 million surplus against an expected AUD8,500 million as imports plummeted by 5.0%, and speaking of plummeting, building approvals fell 18.5% in March when a contraction of 12.5% had been expected.

ECB executive board member, Fabio Panetta stated, "It would be incautious to act on rates before seeing Q2 data. ECB could end negative rates cycle after deciding when to conclude QE in Q3."

The PBoC has pledged further monetary policy support stating, "(We shall) waste no time planning incremental policy tools to support steady economic growth, stabilise employment and prices." This is probably appropriate given that the Chinese Caixin/Markit services PMIs collapsed to 36.2 in April against the expected 40.

Brazil's central bank hikes its benchmark Selic rate by 100bps to 12.75%, as expected.



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Daily Rates

Friday 6 May 2022

FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	71.51					CAD	0.8247	0.9125
NZD/USD	0.6419	-0.0002	-0.0007	-0.0018	-0.0040	CHF	0.6326	0.7000
NZD/AUD	0.9037	-0.0007	-0.0022	-0.0038	-0.0048	CNY	4.2722	4.7281
NZD/JPY	83.45	-0.11	-0.42	-1.10	-2.82	DKK	4.5299	5.0123
NZD/EUR	0.6089	-0.0010	-0.0036	-0.0084	-0.0188	FJD	1.3866	1.5361
NZD/GBP	0.5194	-0.0001	-0.0009	-0.0024	-0.0067	HKD	5.0387	5.5755
						KRW	816.52	903.66
AU TWI	63.70					MYR	2.7864	3.0850
AUD/USD	0.7103	0.0004	0.0009	0.0010	-0.0003	NOK	6.0960	6.7454
AUD/NZD	1.1066	0.0009	0.0026	0.0047	0.0060	SEK	6.3884	7.0690
AUD/JPY	92.35	-0.05	-0.25	-0.84	-2.60	SGD	0.8883	0.9829
AUD/EUR	0.6737	-0.0005	-0.0024	-0.0066	-0.0172	TWD	19.05	21.08
AUD/GBP	0.5748	0.0003	0.0004	-0.0003	-0.0041	ZAR	10.29	11.38
USD Index	103.57					EQUITIES		
EUR/USD	1.0543	0.0014	0.0051	0.0118	0.0268		Index	
USD/JPY	130.00	-0.13	-0.52	-1.36	-3.56	NZX50	11,748	
GBP/USD	1.2359	0.0000	0.0007	0.0024	0.0085	ASX200	7,365	
EUR/GBP	0.8531	0.0011	0.0036	0.0079	0.0162	Dow Jones	34,061	
						S&P 500	4,127	
INTEREST RATES						FTSE100	7,503	
		New Zealand		Australia		DAX 30	13,903	
		Mid		Mid		Nikkei	26,819	
30 day bank bills		1.77%		0.28%		COMMODITIES		
90 day bank bills		2.12%		0.87%			USD	
1 year swap		3.39%		2.50%		Brent Crude	110.82	
2 year swap		3.89%		3.15%		Gold	1,878.94	
3 year swap		4.02%		3.33%		Silver	22.48	
5 year swap		4.04%		3.61%		Iron Ore	142.00	
10 year swap		4.06%		3.80%		CRB Index	334.58	
3 year Govt bond		3.52%		2.96%			NZD	
5 year Govt bond		3.62%		3.14%		NZ Carbon	76.30	
10 year Govt bond		3.75%		3.38%				

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