

Market Alert

Friday 29 July 2022

CURRENCIES	Spot	6mths
NZD/USD	0.6284	-0.0013
NZD/AUD	0.8954	-0.0038
NZD/JPY	84.41	-1.71
NZD/EUR	0.6171	-0.0101
NZD/GBP	0.5165	-0.0037
NZD/CNH	4.2387	-0.0271
AUD/USD	0.6978	0.0013
AUD/EUR	0.6851	-0.0084
EUR/USD	1.0184	0.0145
USD/CNH	6.7440	-0.0290
GBP/USD	1.2165	0.0058
EUR/GBP	0.8370	0.0077

INT RATES	NZ	Australia
OCR/Cash	2.50%	1.35%
90 day bills	3.19%	2.20%
2 year swap	3.76%	3.02%
10 year Govt	3.57%	3.27%

An unexpected contraction is always good news, isn't it?

The first estimate of Q2 GDP highlighted the US economy shrank -0.9% (annualised) as surging inflation, interest rate hikes, and continued supply chain pressures weighed on consumers and businesses. This was against expectations of a 0.5% expansion and aligned with the Atlanta Fed's GDPNow tracker which forecast -1.2%. This was the second consecutive quarterly decline in GDP, meaning the US is technically in a

recession. Inventory rundowns and a plunge in residential construction were key drivers.

The GDP report was a disappointment but financial markets adopted the rationale that bad news is ultimately good news with the soft GDP print lowering the odds of a 75bps hike at the Fed's September meeting to 28%. Wait a minute, a 75bps rate hike while you enter a recession is good news? Well, yes it is apparently, as equity markets extended yesterday's gains while commodity prices stabilised. The T-bond yield fell 11bps to 2.67% while the USD-index resumed its weakening trend, but while this may be a little premature, this note from a currency analyst after yesterday's FOMC meeting sums up the forward looking nature of financial markets and how it is supporting a risk-on environment; *"even a subtle shift from Powell, or hint at open-mindedness to it, may be all markets need to see to sell the US dollar and buy risk assets. I think that's the trade on this meeting and that's what I'll be watching for."*

In other headlines, US initial jobless claims ticked higher to 256,000 against expectations of 253,000. In the Eurozone, economic sentiment declined for a fifth consecutive month to 99.0 while consumer confidence was confirmed at -27.0 in July. On a positive note, Germany inflation edged lower for a second straight month to 7.5% in July, from 7.6% in June, although markets were expecting a smaller 7.4% print.

New Zealand July business confidence improved, slightly, to -56.7 in July from -62.6, while the own activity outlook showed a similar trend moving to -8.7 from -9.1, with the report emphasising the *"economy-wide inflation pressures."* But don't worry, the banks can still get cheap funding if they want it as the RBNZ confirmed the Funding for Lending Programme (FLP) is working as planned, and it'll be staying in place until its scheduled end in December as, *"The commitment to the FLP is important to ensure this tool remains credible for future use if required."* Hopefully the banks will view this as an ideal opportunity to pass on some cheap OCR funding rates to their clients ... but what was it those Tui ads said?

The Australian Treasury has downgraded its economic outlook, forecasting GDP will reach 3.75% in 2021/22, instead of the 4.5% estimated pre-election, while the forecast for growth in 2022/23 has been revised down to 3.0% from 3.5% with 2023/24 at 2.0% from 2.5%.

Headline inflation is seen at 5.5% by mid-2023, 3.5% by year-end 2023, and 2.75% by mid-2024, but don't worry Australia, the export sector will help out after the Q2 export price index gained 10.1% (although a mammoth 19.7% had been expected) while import prices climbed 4.3% against expectations of 1.9%. And in following the trend, June retail sales were also below expectations rising 0.2% versus the 0.5% expected.



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Daily Rates

Friday 29 July 2022

FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	71.10					CAD	0.8055	0.8946
NZD/USD	0.6284	-0.0001	-0.0005	-0.0013	-0.0031	CHF	0.6001	0.6667
NZD/AUD	0.8954	-0.0007	-0.0020	-0.0038	-0.0057	CNY	4.2326	4.7040
NZD/JPY	84.41	-0.21	-0.72	-1.71	-3.53	DKK	4.5926	5.0998
NZD/EUR	0.6171	-0.0014	-0.0046	-0.0101	-0.0195	FJD	1.3608	1.5110
NZD/GBP	0.5165	-0.0005	-0.0016	-0.0037	-0.0067	HKD	4.9328	5.4776
						KRW	814.86	904.85
AU TWI	63.10					MYR	2.7970	3.1059
AUD/USD	0.6813	0.0003	0.0009	0.0013	0.0003	NOK	6.1198	6.7957
AUD/NZD	0.6535	0.0007	0.0022	0.0042	0.0064	SEK	6.4204	7.1294
AUD/JPY	93.72	-0.17	-0.60	-1.53	-3.36	SGD	0.8670	0.9628
AUD/EUR	0.6851	-0.0011	-0.0037	-0.0084	-0.0176	TWD	18.79	20.87
AUD/GBP	0.5736	-0.0001	-0.0005	-0.0018	-0.0039	ZAR	10.37	11.51
USD Index	106.26					EQUITIES		
EUR/USD	1.0184	0.0022	0.0067	0.0145	0.0268		Index	
USD/JPY	134.28	-0.31	-1.02	-2.44	-4.96	NZX50	11,328	
GBP/USD	1.2165	0.0008	0.0026	0.0058	0.0091	ASX200	6,890	
EUR/GBP	0.8370	0.0012	0.0037	0.0077	0.0158	Dow Jones	32,561	
						S&P 500	4,075	
						FTSE100	7,345	
						DAX 30	13,282	
						Nikkei	27,815	
INTEREST RATES		New Zealand		Australia				
		Mid		Mid				
30 day bank bills		2.82%		1.70%				
90 day bank bills		3.19%		2.20%				
1 year swap		3.81%		3.03%				
2 year swap		3.76%		3.02%				
3 year swap		3.70%		3.03%				
5 year swap		3.56%		3.21%				
10 year swap		3.60%		3.46%				
3 year Govt bond		3.44%		2.86%				
5 year Govt bond		3.44%		3.03%				
10 year Govt bond		3.57%		3.27%				
						COMMODITIES		
							USD	
						Brent Crude	107.32	
						Gold	1,754.60	
						Silver	19.96	
						Iron Ore	106.24	
						CRB Index	308.82	
							NZD	
						NZ Carbon	80.25	

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