

Market Alert

Thursday 11 August 2022

CURRENCIES	Spot	6mths
NZD/USD	0.6403	-0.0005
NZD/AUD	0.9044	-0.0030
NZD/JPY	85.11	-1.68
NZD/EUR	0.6215	-0.0096
NZD/GBP	0.5239	-0.0031
NZD/CNH	4.3055	-0.0299
AUD/USD	0.7078	0.0017
AUD/EUR	0.6869	-0.0085
EUR/USD	1.0301	0.0151
USD/CNH	6.7235	-0.0427
GBP/USD	1.2220	0.0058
EUR/GBP	0.8429	0.0079

INT RATES	NZ	Australia
OCR/Cash	2.50%	1.85%
90 day bills	3.28%	2.33%
2 year swap	3.82%	3.36%
10 year Govt	3.42%	3.31%

Inflation in the driver's seat

Financial markets received a pleasant surprise after the US CPI report showed headline inflation increased 8.5% on the year, down from last month's 9.1% print as fuel prices, airline fares, clothing and education costs all fell.

US gasoline prices have contracted for the past two months, which should contribute to a further lowering of the headline rate in the coming months, although core inflation is likely to be stickier due to

labour costs and will no doubt keep the Fed firmly in tightening mode. However, the welcome signs that inflation may have peaked may reduce the probability of a 75bps hike at the September Fed meeting, with markets this morning pricing a roughly equal probability of a 50bps versus 75bps hike in September.

The USD-Index dipped below key support at the 105 level for the first time in over a month, although it has since firmed, suggesting there may still be some residual strength in the Index. The knock-on impact supported the NZD/USD and AUD/USD, which rallied in the region of 1.75%, although the EUR was more subdued, rallying a modest 0.90%.

The inflation result also gave US equity markets a healthy 1-3% boost across the board.

More good news

Impressively, the US government budget deficit narrowed by 30% to USD211 billion in July, down from the USD302 billion deficit in the same month of the previous year.

Over in China, inflation rose to 2.7% in July, from 2.5% in June. This was the fastest rise in prices since July 2020 and largely attributable to increasing food prices, although prices don't seem the

be increasing at the same pace we are seeing in other global economies. Their producer costs are now at a 17-month low, easing from 6.1% to 4.1%. This is the 19th consecutive month of slowing producer input prices and suggests China's 5.5% growth target may be slipping further.

An EU embargo on the import of Russian coal goes into effect today. The coal embargo is the first measure among the seven rounds of EU sanctions so far to hit energy supplies, which have been particularly hard-hit along with grain exports by the Ukraine conflict, one that is continually developing.

Commodities across the board were up, with oil increasing significantly, while the USD weakened against all major pairs as the USD Index recorded its weakest performance in a month.

With signs that inflation in the US may have peaked, it will be interesting to see if the trend continues in other global economies, as the US is typically the first to change direction, but with labour markets globally still extremely tight, it may be too soon for policymakers to call 'job done' on inflation.



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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	71.40					CAD	0.8179	0.9045
NZD/USD	0.6403	-0.0001	-0.0003	-0.0005	-0.0004	CHF	0.6035	0.6676
NZD/AUD	0.9044	-0.0006	-0.0018	-0.0030	-0.0037	CNY	4.3173	4.7672
NZD/JPY	85.11	-0.21	-0.71	-1.68	-3.48	DKK	4.6240	5.1114
NZD/EUR	0.6215	-0.0014	-0.0045	-0.0096	-0.0181	FJD	1.3737	1.5186
NZD/GBP	0.5239	-0.0004	-0.0013	-0.0031	-0.0054	HKD	5.0250	5.5547
						KRW	830.76	918.34
AU TWI	62.80					MYR	2.8525	3.1532
AUD/USD	0.6813	0.0003	0.0010	0.0017	0.0013	NOK	6.0914	6.7335
AUD/NZD	0.6535	0.0007	0.0020	0.0034	0.0035	SEK	6.4378	7.1164
AUD/JPY	94.10	-0.17	-0.61	-1.57	-3.46	SGD	0.8768	0.9692
AUD/EUR	0.6869	-0.0012	-0.0037	-0.0085	-0.0175	TWD	19.15	21.17
AUD/GBP	0.5792	-0.0001	-0.0005	-0.0017	-0.0040	ZAR	10.38	11.47
USD Index	105.22					EQUITIES		
EUR/USD	1.0301	0.0022	0.0070	0.0151	0.0284		Index	
USD/JPY	132.93	-0.30	-1.05	-2.53	-5.36	NZX50	11,752	
GBP/USD	1.2220	0.0007	0.0025	0.0058	0.0096	ASX200	6,993	
EUR/GBP	0.8429	0.0013	0.0037	0.0079	0.0159	Dow Jones	33,309	
						S&P 500	4,211	
						FTSE100	7,507	
						DAX 30	13,701	
						Nikkei	27,819	
INTEREST RATES		New Zealand		Australia		COMMODITIES		
		Mid		Mid			USD	
30 day bank bills		2.97%		1.87%		Brent Crude	97.12	
90 day bank bills		3.28%		2.33%		Gold	1,789.99	
1 year swap		3.82%		3.26%		Silver	20.55	
2 year swap		3.82%		3.36%		Iron Ore	109.85	
3 year swap		3.69%		3.36%		CRB Index	309.36	
5 year swap		3.52%		3.40%			NZD	
10 year swap		3.50%		3.55%		NZ Carbon	80.00	
3 year Govt bond		3.36%		3.01%				
5 year Govt bond		3.32%		3.11%				
10 year Govt bond		3.42%		3.31%				

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