

Market Alert

Tuesday 23 August 2022

CURRENCIES	Spot	6mths
NZD/USD	0.6169	-0.0004
NZD/AUD	0.8971	-0.0025
NZD/JPY	84.80	-1.70
NZD/EUR	0.6206	-0.0091
NZD/GBP	0.5244	-0.0022
NZD/CNH	4.2353	-0.0276
AUD/USD	0.6876	0.0013
AUD/EUR	0.6915	-0.0085
EUR/USD	0.9939	0.0140
USD/CNH	6.8663	-0.0369
GBP/USD	1.1764	0.0040
EUR/GBP	0.8450	0.0090

INT RATES	NZ	Australia
OCR/Cash	3.00%	1.85%
90 day bills	3.40%	2.40%
2 year swap	4.07%	3.69%
10 year Govt	3.80%	3.59%

The PBoC stands alone

The PBoC has stepped up to the plate again cutting the one year Loan Prime Rate (LPR) to 3.65% from 3.70% while the 5-year LPR was cut to 4.30% from 4.45%. To provide some context, most new and outstanding loans in China are based on the one-year LPR, and while it was the LPR's first cut since January, the 5bps cut is not as much as the 10bps cut that was expected.

RBNZ monetary policy committee member, Adam Richardson, spoke with the

WSJ stating, "the inflation shock that is going on around the world continues to leak into domestic prices a bit more than we assumed. What we tend to find is that domestic inflation is a lot more persistent than the imported inflation." In terms of last week's meeting, it would appear a 25bps move wasn't given much consideration as "it's always in there, but it wasn't a huge or major part of the discussion or landscape," while long-term inflation expectations have remained "relatively well anchored. What we'll be focused on is bringing core [inflation] measures down. You might see a bit of volatility in headline [inflation], but core will be the key focus for us."

Meanwhile, Deputy Governor, Christian Hawkesby, was also on the newswires adding, "the strategy is to get monetary policy conditions comfortably above neutral. We considered both a 25bps and 75bps hike before deciding to raise the cash rate by 50bps this month. Once rates get to 4.00-4.25%, we will have a more balanced view on policy outlook. (We are) projecting an environment where the economy cools."

Bundesbank head and ECB Governing Council member, Joakim Nagel, announced, "the probability is rising that inflation will be higher than previously forecast and will average 6.0% sometime next year. Inflation could exceed 10% in the coming months. With the high inflation rates, further interest rate hikes must follow. The German economy is 'likely' to suffer a recession over the winter if

the energy crisis (specifically Russia cutting gas supply) continues to deepen."

Most likely this is a tit-for-tat response to the unfortunate killing of the daughter of one of President Putin's allies, but Russia has announced plans to close the Nord Stream gas pipeline for 3 days between 31 August and 2 September, for 'maintenance'. Once maintenance is complete, gas flow will be restored to the current level of 33 million cubic metres per day circa just 20.0% of Nord Stream's capacity.

Sell off continues

It was a sea of red overnight, the main victim and biggest loser being the Dow Jones, down 2.0%! While the S&P and tech-heavy Nasdaq were both down 2.0%. The primary driver here can be put down to markets reassessing the outlook for monetary policy after hawkish comments from multiple Fed policy makers last week.

On the commodities front, natural gas is up 4.0% and at levels last seen in 2008, while oil continues its downward trend.

The NZD is significantly softer against the USD at 0.6168, while it holds flat against the AUD and it strengthened slightly against the EUR.



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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	71.00					CAD	0.8048	0.8970
NZD/USD	0.6169	-0.0002	-0.0003	-0.0004	-0.0008	CHF	0.5948	0.6632
NZD/AUD	0.8971	-0.0006	-0.0015	-0.0025	-0.0025	CNY	4.2170	4.6980
NZD/JPY	84.80	-0.24	-0.74	-1.70	-3.52	DKK	4.6147	5.1436
NZD/EUR	0.6206	-0.0016	-0.0044	-0.0091	-0.0168	FJD	1.3464	1.5007
NZD/GBP	0.5244	-0.0005	-0.0012	-0.0022	-0.0026	HKD	4.8404	5.3952
						KRW	828.51	923.46
AU TWI	62.90					MYR	2.7656	3.0825
AUD/USD	0.6813	0.0002	0.0008	0.0013	0.0004	NOK	6.0612	6.7558
AUD/NZD	0.6535	0.0007	0.0017	0.0026	0.0019	SEK	6.6058	7.3634
AUD/JPY	94.51	-0.20	-0.67	-1.65	-3.73	SGD	0.8620	0.9608
AUD/EUR	0.6915	-0.0013	-0.0038	-0.0085	-0.0171	TWD	18.59	20.72
AUD/GBP	0.5844	-0.0001	-0.0004	-0.0010	-0.0014	ZAR	10.49	11.69
USD Index	109.00					EQUITIES		
EUR/USD	0.9939	0.0021	0.0065	0.0140	0.0252		Index	
USD/JPY	137.45	-0.34	-1.13	-2.67	-5.64	NZX50	11,764	
GBP/USD	1.1764	0.0006	0.0021	0.0040	0.0032	ASX200	7,047	
EUR/GBP	0.8450	0.0013	0.0039	0.0090	0.0188	Dow Jones	33,076	
						S&P 500	4,139	
						FTSE100	7,534	
						DAX 30	13,231	
						Nikkei	28,795	
INTEREST RATES		New Zealand		Australia		COMMODITIES		
		Mid		Mid			USD	
30 day bank bills		3.06%		2.00%		Brent Crude	96.75	
90 day bank bills		3.40%		2.40%		Gold	1,735.73	
1 year swap		4.03%		3.34%		Silver	18.98	
2 year swap		4.07%		3.69%		Iron Ore	105.64	
3 year swap		4.00%		3.66%		CRB Index	313.44	
5 year swap		3.92%		3.66%			NZD	
10 year swap		3.95%		3.87%		NZ Carbon	85.50	
3 year Govt bond		3.69%		3.22%				
5 year Govt bond		3.68%		3.36%				
10 year Govt bond		3.80%		3.59%				

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