

Market Alert

Wednesday 19 October 2022

CURRENCIES	Spot	6mths
NZD/USD	0.5672	0.0008
NZD/AUD	0.9019	-0.0049
NZD/JPY	84.65	-1.98
NZD/EUR	0.5760	-0.0076
NZD/GBP	0.5015	-0.0009
NZD/CNH	4.1007	-0.0414
AUD/USD	0.6289	0.0042
AUD/EUR	0.6385	-0.0051
EUR/USD	0.9846	0.0142
USD/CNH	7.2298	-0.0827
GBP/USD	1.1309	0.0031
EUR/GBP	0.8705	0.0098

INT RATES	NZ	Australia
OCR/Cash	3.50%	2.60%
90 day bills	4.08%	2.99%
2 year swap	5.13%	3.99%
10 year Govt	4.63%	4.02%

Anyone who thought that inflation was under control ...

... had better get their Economics 101 book out!

Yesterday's CPI print was a shocker and will have Mr. Orr crying into his herbal tea this morning! Quite simply, 'yesterday's report will be like a red rag to an inflation-fighting bull!' On a quarterly basis, inflation rose 2.2% in Q3, up from Q2's 1.7% and above expectations of 1.6% while, on an annual basis, the headline number came in at 7.2%, well above the forecast 6.6%.

Rent and building costs were the key drivers of the surge as non-tradeable inflation reached 2.0% on the quarter and 6.6% on the year, which was the highest headline number since the series began in June 2000. Tradeable inflation fell to 8.1% on the year from 8.7%, but significantly above estimates at 7.0%.

This saw all of the local banks hike their OCR forecasts, with most expecting a 75bps increase in November. Ranges for the OCR peak now range between 4.50% and 5.25%, with swap rates 17bps higher in the 2-years, while 5 and 10-year rates surged 12 and 7 bps respectively. The local market is now pricing the OCR will peak at 5.50% in mid-2023!

It's no different in Australia, after the RBA minutes implied further rate hikes as 'rates are not especially high!' Furthermore, "the decision to raise rates by only 25bp was 'finely balanced'. The smaller move was warranted by the scale of hikes already delivered. The full impact of hikes is yet to be felt in mortgage payments. Higher rates abroad are likely to 'significantly lower' global growth and lessen inflation. Some further rise in wage growth would not be a concern if inflation expectations anchored. Monthly CPI data confirmed a broad-based pick-up in inflation, rents and utilities are expected to rise further while data suggest household consumption held up well in Q3, supported by very tight labour market."

Deputy Governor Michele Bullock announced the RBA 'Board expects to increase interest rates further over the coming months; pace and timing will be determined by data. Factors the board will monitor closely include the global economy, household spending and wage- and price-setting behaviour. We still feel there is a path to get inflation down without a recession.'

Stay of execution

The BoE has delayed the start of its Quantitative Tightening programme, mere days after ending its QE aimed at stabilising the Gilt market. The new start date of the programme is now on November 1st, 2022. The BoE wants to see stability in the gilts market before engaging in QT and called the market 'very distressed' in recent weeks. It said inflation can be controlled with interest rate changes, which means rate hikes, for those just tuning in.

China has delayed the release of a slew of economic data including its GDP figures, in what is possibly an ominous sign. Rumours suggest President Xi didn't want poor growth numbers spoiling his CCP congress party.



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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	68.20					CAD	0.7817 0.8666
NZD/USD	0.5672	0.0001	0.0004	0.0008	0.0008	CHF	0.5646 0.6261
NZD/AUD	0.9019	-0.0005	-0.0023	-0.0049	-0.0099	CNY	4.0703 4.5155
NZD/JPY	84.65	-0.26	-0.94	-1.98	-4.31	DKK	4.2845 4.7505
NZD/EUR	0.5760	-0.0012	-0.0041	-0.0076	-0.0148	FJD	1.3185 1.4619
NZD/GBP	0.5015	-0.0003	-0.0008	-0.0009	-0.0014	HKD	4.4524 4.9367
						KRW	809.44 897.49
AU TWI	60.30					MYR	2.6738 2.9646
AUD/USD	0.6813	0.0005	0.0021	0.0042	0.0061	NOK	5.9974 6.6498
AUD/NZD	0.6535	0.0005	0.0026	0.0057	0.0106	SEK	6.2982 6.9831
AUD/JPY	93.84	-0.24	-0.82	-1.71	-3.87	SGD	0.8064 0.8942
AUD/EUR	0.6385	-0.0010	-0.0030	-0.0051	-0.0099	TWD	18.17 20.14
AUD/GBP	0.5560	0.0000	0.0005	0.0019	0.0043	ZAR	10.31 11.43
USD Index	112.13					EQUITIES	
EUR/USD	0.9846	0.0022	0.0077	0.0142	0.0250		Index
USD/JPY	149.24	-0.49	-1.78	-3.68	-7.70	NZX50	10,847
GBP/USD	1.1309	0.0007	0.0026	0.0031	0.0026	ASX200	6,779
EUR/GBP	0.8705	0.0013	0.0048	0.0098	0.0201	Dow Jones	30,398
						S&P 500	3,728
INTEREST RATES			New Zealand		Australia	FTSE100	6,937
			Mid		Mid	DAX 30	12,766
30 day bank bills			3.61%		2.77%	Nikkei	27,156
90 day bank bills			4.08%		2.99%	COMMODITIES	
1 year swap			5.06%		3.67%		USD
2 year swap			5.13%		3.99%	Brent Crude	90.19
3 year swap			5.02%		3.98%	Gold	1,649.54
5 year swap			4.86%		4.05%	Silver	18.63
10 year swap			4.79%		4.33%	Iron Ore	94.93
3 year Govt bond			4.56%		3.47%	CRB Index	296.15
5 year Govt bond			4.54%		3.68%		NZD
10 year Govt bond			4.63%		4.02%	NZ Carbon	80.75

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