

Market Alert

Friday 2 December 2022

CURRENCIES	Spot	6mths
NZD/USD	0.6366	0.0006
NZD/AUD	0.9354	-0.0061
NZD/JPY	86.18	-2.08
NZD/EUR	0.6056	-0.0074
NZD/GBP	0.5196	-0.0019
NZD/CNH	4.4860	-0.0574
AUD/USD	0.6803	0.0051
AUD/EUR	0.6473	-0.0038
EUR/USD	1.0508	0.0137
USD/CNH	7.0480	-0.0967
GBP/USD	1.2250	0.0051
EUR/GBP	0.8577	0.0071

INT RATES	NZ	Australia
OCR/Cash	4.25%	2.85%
90 day bills	4.45%	3.10%
2 year swap	5.07%	3.64%
10 year Govt	4.13%	3.57%

The PCE supports Powell's approach

The Fed's favoured inflation gauge, the PCE deflator, supported the rhetoric that inflation may be peaking after the October headline print eased to 6.0% from a revised 6.3%, while the core fell to 5.0% versus a revised 5.2%. In other US data releases, personal spending increased 0.8% in October, and weekly jobless claims declined a touch more than expected to 225,000 from last week's 241,000. Manufacturing contracted in November for the first time since May 2020 after the ISM's gauge of factory activity slid to 49.0 from 50.2 as new orders, supplier deliveries, and orders contracted.

We also had a few speeches with US Secretary of State, Janet Yellen, who announced *"I believe there is a path by which a soft landing could happen. I believe there are risks to that path, but I believe it is certainly possible for us to have a soft landing,"* while HSBC announced, *"In an environment where global growth is set to bottom out, rate volatility to peak, and risk sentiment to pick up, the USD is likely to weaken in 2023. A weaker USD should be positive for gold."*

The OECD's favoured measurement for the global economic outlook, PMIs, suggests the world is not getting better anytime soon as most manufacturing PMIs remain in deeply contractionary territory, even though most of them improved in November from their October lows. UK manufacturing PMIs edged up to 46.5 from October's 2.5-year low of 46.2, Euro-zone November PMIs rose to 47.1 from 46.4, Japanese manufacturing PMIs turned negative at 49.0 having fallen from 50.7, while Chinese manufacturing PMIs flatlined at 49.4 from 49.2 to record its 4th month in contractionary territory.

In other data releases, German retail sales contracted by 5.0% on the year and 2.8% for the month of October, while Australian Q3 2022 capex contracted -0.6% on the quarter against forecasts of a 1.5% increase.

Jerome Powell's speech yesterday clearly highlighted that he favours a slower, more cautious approach amid the uncertain global outlook. And while

Nick Timiraos, the WSJ journalist and unofficial mouthpiece for Jerome Powell, announced, *"Powell provided a clear signal"* for a 50bps rate hike at the December meeting, the markets are conveniently overlooking the fact that the Fed will hold US rates higher for a longer period. Mr. Powell and the RBA Governor, Philip Lowe, have clearly rejected the notion of a 'shock-strategy' of excessive rate hikes to rein in inflation, which is the opposite approach to that of the RBNZ Governor. The Fed Chair's speech has supported a risk on approach, with the GBP, NZD, and EUR the main beneficiaries, while the AUD has risen modestly. As we enter 2023, this positivity should not be taken as a sign that the global recover is firmly in place as I suspect the degree of over-optimism in December 2022 will be equally off set by pessimism in Q1 2023. The performance of the NZD in November has been exceptional, although it is now in danger of 'over-reaching.'

The knock-on impact of Jerome Powell's speech has seen the USD-index reach its first major technical support from its September highs. This has supported the NZD predominately, which has seen NZD/AUD reach 0.9355, although equity and bond markets have been relatively stable with European bourses making modest gains, although US equities are in negative territory. The 10-year US treasury yield is 5bps lower at 3.55%.



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Daily Rates

Friday 2 December 2022

FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	73.20					CAD	0.8567	0.9156
NZD/USD	0.6366	0.0003	0.0008	0.0006	-0.0003	CHF	0.5966	0.6375
NZD/AUD	0.9354	-0.0009	-0.0025	-0.0061	-0.0129	CNY	4.4860	4.7907
NZD/JPY	86.18	-0.33	-0.95	-2.08	-4.38	DKK	4.5046	4.8139
NZD/EUR	0.6056	-0.0014	-0.0035	-0.0074	-0.0152	FJD	1.3818	1.4767
NZD/GBP	0.5196	-0.0004	-0.0008	-0.0019	-0.0040	HKD	4.9530	5.2930
						KRW	830.69	887.72
AU TWI	62.50					MYR	2.8010	2.9933
AUD/USD	0.6813	0.0010	0.0027	0.0051	0.0086	NOK	6.2029	6.6287
AUD/NZD	0.6535	0.0009	0.0027	0.0067	0.0136	SEK	6.5684	7.0186
AUD/JPY	92.12	-0.27	-0.77	-1.63	-3.48	SGD	0.8623	0.9215
AUD/EUR	0.6473	-0.0009	-0.0021	-0.0038	-0.0076	TWD	19.48	20.81
AUD/GBP	0.5553	0.0001	0.0006	0.0016	0.0034	ZAR	11.18	11.95
USD Index	104.91					EQUITIES		
EUR/USD	1.0508	0.0029	0.0073	0.0137	0.0257		Index	
USD/JPY	135.40	-0.58	-1.66	-3.39	-6.92	NZX50	11,655	
GBP/USD	1.2250	0.0015	0.0032	0.0051	0.0079	ASX200	7,354	
EUR/GBP	0.8577	0.0012	0.0035	0.0071	0.0151	Dow Jones	34,371	
						S&P 500	4,072	
						FTSE100	7,558	
						DAX 30	14,490	
						Nikkei	28,226	
						COMMODITIES		
							USD	
						Brent Crude	87.31	
						Gold	1,801.27	
						Silver	22.71	
						Iron Ore	101.83	
						CRB Index	302.42	
							NZD	
						NZ Carbon	82.45	
INTEREST RATES			New Zealand		Australia			
			Mid		Mid			
30 day bank bills			4.35%		2.99%			
90 day bank bills			4.45%		3.10%			
1 year swap			5.23%		3.53%			
2 year swap			5.07%		3.64%			
3 year swap			4.79%		3.58%			
5 year swap			4.49%		3.64%			
10 year swap			4.33%		3.92%			
3 year Govt bond			4.52%		3.14%			
5 year Govt bond			4.29%		3.26%			
10 year Govt bond			4.13%		3.57%			

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