

# Market Alert

Thursday 19 January 2023

CURRENCIES	Spot	6mths
NZD/USD	0.6432	-0.0002
NZD/AUD	0.9256	-0.0067
NZD/JPY	82.88	-2.09
NZD/EUR	0.5960	-0.0067
NZD/GBP	0.5214	-0.0020
NZD/CNH	4.3535	-0.0545
AUD/USD	0.6949	0.0048
AUD/EUR	0.6438	-0.0027
EUR/USD	1.0790	0.0116
USD/CNH	6.7679	-0.0830
GBP/USD	1.2333	0.0042
EUR/GBP	0.8749	0.0063

  

INT RATES	NZ	Australia
OCR/Cash	4.25%	3.10%
90 day bills	4.84%	3.37%
2 year swap	4.97%	3.57%
10 year Govt	4.13%	3.63%

## Are we on the verge of a US recession?

Are we about to see a systematic change in the US data? I guess that is still to play out, but overnight US December retail sales contracted -1.1%, which was almost twice the pace of November's revised -0.6% decline. With US bank accounts balances easing while money owed on credit cards continues to increase, it is becoming increasingly apparent the ability of the US consumer to support the US economy is rapidly diminishing. And don't expect the US industrial sector to support the economy either after producer prices fell -0.5% on the month with manufacturing the key driver falling -1.3% in December after a -1.1% drop

in November. Ultimately, while these releases are positive from an inflation perspective, they also highlight the risk of a possible US recession. Backing this up, JP Morgan has cut its recommended equity allocation again on recession and overtightening risks, while Morgan Stanley announced, "We don't see US inflation coming down to about 3.0% until the end of 2023, and to about 2.0% by the end of 2024. We don't see the Fed considering reducing rates until the US reaches that 3.0% inflation range."

With a lot of similarities between the NZ and Canadian economies, hopefully this is a good omen. Canadian inflation fell to 6.3% in December, below market expectations of 6.4% and November's 6.8%.

## The end of the carry trade?

While the BoJ managed a massive swerve to leave their cash rate at -0.10% and the 10-year JGB yield target range unchanged between -0.50% to +0.50%, there is no doubt the pending change in the Governor and the increasing political pressures will see changes at their March or April meetings, given inflation is nearing a 40-year high while the Tankan report saw the 'Big manufacturers' index for to -6 in January from +8 in December. But while the BoJ's decision to maintain the status quo prompted a sharp slide in the yen and JGB yields, the question I can't help asking is ... when the BoJ eventually changes their

strategy, will we see a cyclical change in the yen from its 32-year high against the USD amid a collapse in the carry trade? For decades cheap yen funding has supported investment into higher yielding government bonds to the extent that Japanese investors are the largest holders of US treasuries, while they also own vast quantities of bunds, gilts, and other European government bonds. Should we see an unwinding of the BoJ's yield curve control and a stronger yen, will investors unwind their carry trades selling down their international bond holdings to repay their yen borrowings? If they do, it will be the strategic unwinding of a 30-year trend.

## Not today!

The inertia from the BoJ saw the yen weaken and a recovery in the 'carry' currencies, which saw the NZD and the AUD strengthen. Interestingly, this time round the AUD/USD underperformed as it continues to struggle to get above the 0.7000 level, which saw NZD/AUD recover to 0.9250 Against this, international equity markets weakened on the US data while the risk of a recession saw the 10-year treasury yield fall 17bps to 3.38%, its lowest level since last September.



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# Daily Rates

Thursday 19 January 2023

FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	71.90					CAD	0.8670	0.9367
NZD/USD	0.6432	0.0003	0.0003	-0.0002	-0.0005	CHF	0.5895	0.6369
NZD/AUD	0.9256	-0.0008	-0.0029	-0.0067	-0.0136	CNY	4.3732	4.7414
NZD/JPY	82.88	-0.32	-0.98	-2.09	-4.37	DKK	4.4336	4.7899
NZD/EUR	0.5960	-0.0011	-0.0032	-0.0067	-0.0137	FJD	1.3797	1.4906
NZD/GBP	0.5214	-0.0002	-0.0008	-0.0020	-0.0046	HKD	5.0314	5.4359
						KRW	795.54	859.48
AU TWI	62.30					MYR	2.7728	2.9957
AUD/USD	0.6813	0.0009	0.0024	0.0048	0.0079	NOK	6.3867	6.9000
AUD/NZD	0.6535	0.0008	0.0032	0.0074	0.0147	SEK	6.6529	7.1876
AUD/JPY	89.52	-0.27	-0.79	-1.64	-3.49	SGD	0.8493	0.9176
AUD/EUR	0.6438	-0.0006	-0.0015	-0.0027	-0.0057	TWD	19.51	21.07
AUD/GBP	0.5634	0.0003	0.0009	0.0019	0.0031	ZAR	11.01	11.89
USD Index	102.38					<b>EQUITIES</b>		
EUR/USD	1.0790	0.0023	0.0062	0.0116	0.0213		<b>Index</b>	
USD/JPY	128.82	-0.55	-1.58	-3.22	-6.44	NZX50	11,920	
GBP/USD	1.2333	0.0009	0.0024	0.0042	0.0070	ASX200	7,393	
EUR/GBP	0.8749	0.0012	0.0032	0.0063	0.0119	Dow Jones	33,487	
						S&P 500	3,950	
						FTSE100	7,831	
						DAX 30	15,182	
						Nikkei	26,791	
						<b>COMMODITIES</b>		
							<b>USD</b>	
						Brent Crude	85.39	
						Gold	1,903.31	
						Silver	23.49	
						Iron Ore	120.95	
						CRB Index	301.44	
							<b>NZD</b>	
						NZ Carbon	73.75	

  

INTEREST RATES	New Zealand		Australia
	Mid		Mid
30 day bank bills	4.42%		3.15%
90 day bank bills	4.84%		3.37%
1 year swap	5.38%		3.65%
2 year swap	4.97%		3.57%
3 year swap	4.61%		3.49%
5 year swap	4.31%		3.58%
10 year swap	4.23%		3.91%
3 year Govt bond	4.43%		3.19%
5 year Govt bond	4.15%		3.30%
10 year Govt bond	4.13%		3.63%

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