

Market Alert

Friday 3 March 2023

CURRENCIES	Spot	6mths
NZD/USD	0.6214	0.0000
NZD/AUD	0.9241	-0.0061
NZD/JPY	84.96	-2.33
NZD/EUR	0.5865	-0.0058
NZD/GBP	0.5198	-0.0023
NZD/CNH	4.3019	-0.0577
AUD/USD	0.6724	0.0044
AUD/EUR	0.6346	-0.0021
EUR/USD	1.0595	0.0103
USD/CNH	6.9234	-0.0925
GBP/USD	1.1950	0.0047
EUR/GBP	0.8865	0.0047

INT RATES	NZ	Australia
OCR/Cash	4.75%	3.35%
90 day bills	5.18%	3.67%
2 year swap	5.39%	4.17%
10 year Govt	4.69%	3.96%

The T-bond exceeds 4.00%

Without doubt, the most significant move overnight was the US 10-year treasury yield regaining a 4.00% handle, returning to levels last seen in mid-November. Overnight the yield topped out at 4.0875% before easing back to the 4.06% level cementing in the 'higher-for-longer' theme after the initial claims released highlighted the tight labour market after initial claims eased by 2k to 190k, while non-farm unit labour costs increased by an annualized 3.2% in Q4 22, exceeding estimates for a 1.0% gain. We also had Atlanta Fed President Raphael Bostic call for further rate hikes beyond the 5.0% level to make sure inflation doesn't pick up again, while Minneapolis Fed President Neel Kashkari said the central

bank's rate hikes are not having much of an impact on the services sector, which has been a key driver of US inflation. This ultimately supported the USD as the dollar index reached the 105 level, which saw the NZD, AUD, and EUR give-up yesterday's gains, while equity and commodity markets were steady.

The ECB's minutes highlighted policymakers broadly agreed that further policy tightening was needed to combat inflation, but they were split on the proposed communication for the March meeting as policy rates were coming closer to a level where caution was needed as, "Further increases were required for the Governing Council's policy rates to enter restrictive territory. Markets were now paying more attention to core inflation than to headline inflation to gauge underlying inflationary pressures. Members agreed that there were no signs of a wage-price spiral (although) wage pressures were broadening."

The minutes also noted that the short-term momentum in core inflation had started to decline, although that fact was contradicted by today's CPI release, and while headline Euro-zone inflation eased from 8.6% to 8.5%, core inflation accelerated to 5.6% from 5.3%. With inflationary pressures remaining higher than anticipated, the ECB will have to retain its hawkish rhetoric with energy inflation at 13.7% and food at 15.0%, which saw ECB President Christine Lagarde announce, "We still have to pursue

higher interest rates (although) we don't know the peak yet. The case for a 50bps rate hike this month is still on the table as inflation is still too high. Interest rates won't return to where they stood 2 or 3-years ago. I see no recession on the horizon for the euro zone." Goldman Sachs has now raised its May ECB rate forecast to a 50bps hike from 25bps forecasting an ECB peak in 3.75% by June.

In the other headlines, NZ Q4 terms of trade increased by 1.8%, which was a lot better than the forecast -1.3% decline. Export prices fell -0.6% while import prices plummeted -2.1%. Australian January building approvals are down a staggering -27.6% on the month, against an expected -8.0% contraction. Japanese Q4 capex increased 7.7% to record its 7th consecutive quarterly increase although it fell short of Q3's 9.8%.

How about that transfer to Shanghai?

I'd think twice after President Xi's anti-graft watchdog advised China's bankers to rectify their mindsets, clean up their "hedonistic" lifestyles, and to stop copying Western bankers, which is all part of Xi Jinping's campaign to tighten his grip on the financial system. It also comes on the heels of the disappearance of a top investment banker and the downfall of dozens of officials.



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Daily Rates

Friday 3 March 2023

FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	71.40					CAD	0.8455	0.9150
NZD/USD	0.6214	0.0000	-0.0001	0.0000	-0.0007	CHF	0.5851	0.6333
NZD/AUD	0.9241	-0.0010	-0.0032	-0.0061	-0.0120	CNY	4.3001	4.6521
NZD/JPY	84.96	-0.37	-1.13	-2.33	-4.77	DKK	4.3636	4.7225
NZD/EUR	0.5865	-0.0011	-0.0031	-0.0058	-0.0114	FJD	1.3595	1.4713
NZD/GBP	0.5198	-0.0003	-0.0011	-0.0023	-0.0048	HKD	4.8770	5.2781
						KRW	815.41	882.47
AU TWI	61.40					MYR	2.7791	3.0076
AUD/USD	0.6724	0.0008	0.0022	0.0044	0.0079	NOK	6.4884	7.0220
AUD/NZD	1.0817	0.0011	0.0035	0.0068	0.0131	SEK	6.5275	7.0644
AUD/JPY	91.92	-0.30	-0.92	-1.94	-4.06	SGD	0.8372	0.9061
AUD/EUR	0.6346	-0.0005	-0.0013	-0.0021	-0.0044	TWD	19.05	20.62
AUD/GBP	0.5625	0.0003	0.0007	0.0012	0.0020	ZAR	11.29	12.22
USD Index	105.07					EQUITIES		
EUR/USD	1.0595	0.0019	0.0055	0.0103	0.0196		Index	
USD/JPY	136.72	-0.59	-1.81	-3.73	-7.62	NZX50	11,901	
GBP/USD	1.1950	0.0007	0.0023	0.0047	0.0099	ASX200	7,255	
EUR/GBP	0.8865	0.0010	0.0028	0.0047	0.0091	Dow Jones	32,953	
						S&P 500	3,955	
INTEREST RATES			New Zealand		Australia	FTSE100	7,944	
			Mid		Mid	DAX 30	15,328	
30 day bank bills			4.91%		3.46%	Nikkei	27,499	
90 day bank bills			5.18%		3.67%	COMMODITIES		
1 year swap			5.55%		4.14%		USD	
2 year swap			5.39%		4.17%	Brent Crude	84.43	
3 year swap			5.12%		4.08%	Gold	1,836.30	
5 year swap			4.82%		4.01%	Silver	20.88	
10 year swap			4.69%		4.27%	Iron Ore	126.80	
3 year Govt bond			4.90%		3.62%	CRB Index	298.30	
5 year Govt bond			4.69%		3.68%		NZD	
10 year Govt bond			4.69%		3.96%	NZ Carbon	67.00	

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