

Market Alert

Thursday 25 May 2023

CURRENCIES	Spot	6mths
NZD/USD	0.6102	-0.0010
NZD/AUD	0.9330	-0.0078
NZD/JPY	85.01	-2.56
NZD/EUR	0.5675	-0.0065
NZD/GBP	0.4935	-0.0017
NZD/CNH	4.3109	-0.0703
AUD/USD	0.6539	0.0043
AUD/EUR	0.6080	-0.0019
EUR/USD	1.0751	0.0103
USD/CNH	7.0642	-0.1037
GBP/USD	1.2361	0.0021
EUR/GBP	0.8697	0.0065

INT RATES	NZ	Australia
OCR/Cash	5.50%	3.85%
90 day bills	5.74%	3.97%
2 year swap	5.20%	3.86%
10 year Govt	4.41%	3.73%

The bull was locked in the barn as the bear took to the lectern!

While yesterday's RBNZ 25bps OCR hike to 5.50% was not a surprise, there were plenty of surprising elements in the statement and the Q&A, even to the point where the bear admitted, "I'm feeling personally attacked here!"

Among the surprises was that the discussion was whether to pause or to hike 25bps. Most forecasters thought the debate would revolve around 25bps or 50bps. Furthermore, the decision to hike 25bps was by a 5-2 vote, although there was "a broad consensus on most matters, just not (the) absolute agreement on the actual rate." Mr. Orr then confirmed, "the outlook for fiscal policy is contractionary on demand, aggregate spending is declining,"

and, in a point remark to one of the local banks, he doesn't believe immigration will be inflationary either as, "a big part of the immigration wave has already happened."

Mr. Orr dodged the question on the possibility of further hikes, or whether rates would be higher-for-longer, welcoming the decline in inflation before emphasising, "being a cautious central bank, we are foreshadowing keeping a restrictive monetary policy for some time" although he was pleased that New Zealand had heeded this advice and 'cooled down those jets!' He then acknowledged that the RBNZ is seeing a slowing in spending and demand, highlighting that monetary policy is doing its job, although he regrets that New Zealand has had to suffer.

To some extent, the writing was on the wall prior to the RBNZ announcement after Q1 retail sales, excluding inflation fell -1.4% against forecasts of 0.2%, while Q4's result was also lowered from -0.6% to -1.0%. On the year, it fell to -4.1% against expectations at 3.6%!

In a similar vein, the minutes from the Federal Reserve's May meeting highlighted Fed officials were split on the need for more rate hikes. In saying that, the officials stressed the need for a data-dependent approach as cuts were unlikely as almost all officials saw upside risks to the inflation outlook as inflation remained unacceptably high and was declining slower than expected. Furthermore, officials saw timely debt limit increase as essential, although there was no news on that overnight.

Post the announcement, both the NZD and local yields fell to their session lows and that trend continued overnight for the NZD. It should also be noted the USD-index also had another positive session with the AUD falling to a 6-month low while the EUR/USD reached a 2-month low. The NZD/AUD and NZD/JPY also had substantial falls from their recent highs, while the NZD/EUR and NZD/GBP dipped back towards their recent lows.

Equity and commodity markets were a sea of red, although oil and gas prices rallied 1.5% and 3.7%, while bond markets were quiet with the 2 and 10-yr US yields 3bps and 4bps higher at 4.36% and 3.73%.

In other headlines, Australian MI Leading index for April, fell to -0.78% from March's -0.69%, German IFO business climate indicator dropped by 1.7 points to 91.7 from April's 14-month high, UK inflation fell to 8.7% although exceeding expectations at 8.2%. Meanwhile the Japanese Tankan survey had its first positive print this year as the manufacturers index rose to 6 while the service sector index firmed to 25.

Finally, Goldman's suggests there is more room for the USD appreciation.



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Daily Rates

Thursday 25 May 2023

FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	71.60					CAD	0.8296	0.8890
NZD/USD	0.6102	-0.0001	-0.0004	-0.0010	-0.0031	CHF	0.5520	0.5917
NZD/AUD	0.9330	-0.0013	-0.0039	-0.0078	-0.0146	CNY	4.3076	4.6161
NZD/JPY	85.01	-0.42	-1.30	-2.56	-5.07	DKK	4.2275	4.5302
NZD/EUR	0.5675	-0.0011	-0.0034	-0.0065	-0.0128	FJD	1.3494	1.4460
NZD/GBP	0.4935	-0.0004	-0.0012	-0.0017	-0.0027	HKD	4.7776	5.1198
						KRW	805.67	863.37
AU TWI	60.40					MYR	2.8002	3.0007
AUD/USD	0.6539	0.0008	0.0023	0.0043	0.0063	NOK	6.6926	7.1717
AUD/NZD	1.0713	0.0014	0.0043	0.0086	0.0155	SEK	6.5410	7.0094
AUD/JPY	91.08	-0.33	-1.02	-2.01	-4.08	SGD	0.8235	0.8825
AUD/EUR	0.6080	-0.0004	-0.0011	-0.0019	-0.0042	TWD	18.82	20.16
AUD/GBP	0.5288	0.0002	0.0010	0.0025	0.0054	ZAR	11.75	12.59
USD Index	103.85					EQUITIES		
EUR/USD	1.0751	0.0019	0.0057	0.0103	0.0178		Index	
USD/JPY	139.30	-0.66	-2.04	-4.00	-7.65	NZX50	11,972	
GBP/USD	1.2361	0.0008	0.0018	0.0021	-0.0005	ASX200	7,214	
EUR/GBP	0.8697	0.0010	0.0031	0.0065	0.0144	Dow Jones	32,786	
						S&P 500	4,125	
INTEREST RATES			New Zealand		Australia	FTSE100	7,627	
			Mid		Mid	DAX 30	15,842	
30 day bank bills			5.60%		3.88%	Nikkei	30,683	
90 day bank bills			5.74%		3.97%	COMMODITIES		
1 year swap			5.73%		3.94%		USD	
2 year swap			5.20%		3.86%	Brent Crude	78.01	
3 year swap			4.83%		3.73%	Gold	1,959.25	
5 year swap			4.48%		3.64%	Silver	23.06	
10 year swap			4.39%		3.97%	Iron Ore	106.54	
3 year Govt bond			4.53%		3.39%	CRB Index	290.57	
5 year Govt bond			4.33%		3.41%		NZD	
10 year Govt bond			4.41%		3.73%	NZ Carbon	53.75	

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