

Market Alert

Friday 26 May 2023

CURRENCIES	Spot	6mths
NZD/USD	0.6057	-0.0008
NZD/AUD	0.9312	-0.0076
NZD/JPY	84.83	-2.54
NZD/EUR	0.5668	-0.0063
NZD/GBP	0.4917	-0.0015
NZD/CNH	4.2971	-0.0691
AUD/USD	0.6504	0.0045
AUD/EUR	0.6066	-0.0020
EUR/USD	1.0719	0.0103
USD/CNH	7.0940	-0.1055
GBP/USD	1.2317	0.0019
EUR/GBP	0.8701	0.0068

INT RATES	NZ	Australia
OCR/Cash	5.50%	3.85%
90 day bills	5.72%	3.98%
2 year swap	5.23%	3.93%
10 year Govt	4.43%	3.79%

The logic of higher for longer.

It appears the US consumer is continuing to 'hold-up' the US economy after the second estimate for annualised GDP was confirmed at 1.3% in Q1, which was slightly higher than the initial estimate at 1.1%. But on the negative side of the coin, US corporate profits contracted 6.8% to USD2.307trn in Q1, although the Nasdaq is currently enjoying a strong session, up 2.8%, after Nvidia surged more than 25% as earnings and revenue beat expectations while the company reported a stronger-than-expected revenue guidance driven by AI chip demand. The strong Nvidia performance also supported the S&P, although the European exchanges closed in negative territory after Europe's largest economy, Germany, officially entered a recession after Q1 GDP contracted -0.3%.

With the penny finally dropping that the US won't be cutting interest rates this year, the US yield curve continues to grind higher with the 2-yr yield surging 19bps to 4.53% while the 10-yrs gained 10bps to 3.82%. The USD-index also continued its grind higher as it broke through the 104.00 level to be at 104.22 which saw the NZD, AUD and EUR all weakened, with the NZD being the worst performer, falling -0.85% against the USD.

But why has it taken so long for that particular penny to drop I hear you ask? Well Raphael Bostic of the Fed announced, "*the Fed does not want to be locked into a pre-determined rate path and will base its interest rate decisions on data. Its problematic for the economy if the Fed doesn't achieve 2% inflation target. The best case scenario is the Fed will not consider a rate cut well into 2024.*" Colleague Susan Collins then added, "*the baseline outlook doesn't hold for a 'significant economic downturn.' A modest increase in unemployment would not be surprising (although) the decline in inflation has been slower than expected.*"

ECB member Klaas Knot stated, "*we need rate hikes in June and July and an open mind on September. There is no indication that underlying inflation is abating. The ECB will maintain rates at their peak for a considerable amount of time,*" while the BoE's Jonathan Haskel spoke in a similar vein confirming, "*if we do see evidence of more inflation persistence, we will tighten policy further.*"

Adrian Orr also expanded on his post-MPS Q&A session adding, "*interest rates are restrictive (and) well above neutral. Both economic growth and inflation are weaker than expected. We can alter our assessment in response to new data if need to do so.*"

I'm not one for turning, but ...

One of the local NZ banks that has a strong bias to immigration and a 6.00% OCR still believes there is potential for an RBNZ cash rate hike in August.

Goldmans says its bullish forecast on commodities was wrong given, "*the largest commodity destocking the complex has ever witnessed*" although they still expect commodity prices to grind higher as, "*the absence of a recession will likely lead to higher oil and commodity prices as well as higher rates, to which equities would likely react poorly.*"

Fitch has placed the US's 'AAA' credit rating on negative watch "*reflecting increased political partisanship that is hindering a resolution to raise or suspend the debt limit,*" although they, "*would expect US country ceiling to remain at 'AAA' even in scenario of a debt default.*"



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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	70.60					CAD	0.8257	0.8872
NZD/USD	0.6057	-0.0001	-0.0003	-0.0008	-0.0027	CHF	0.5488	0.5893
NZD/AUD	0.9312	-0.0013	-0.0038	-0.0076	-0.0149	CNY	4.2876	4.6041
NZD/JPY	84.83	-0.42	-1.26	-2.54	-5.11	DKK	4.2089	4.5196
NZD/EUR	0.5668	-0.0011	-0.0033	-0.0063	-0.0127	FJD	1.3439	1.4431
NZD/GBP	0.4917	-0.0004	-0.0010	-0.0015	-0.0022	HKD	4.7455	5.0958
						KRW	805.79	865.25
AU TWI	60.00					MYR	2.8002	3.0068
AUD/USD	0.6504	0.0008	0.0024	0.0045	0.0068	NOK	6.6957	7.1898
AUD/NZD	1.0735	0.0014	0.0043	0.0085	0.0151	SEK	6.5588	7.0428
AUD/JPY	91.05	-0.33	-0.99	-2.01	-4.12	SGD	0.8205	0.8810
AUD/EUR	0.6066	-0.0004	-0.0010	-0.0020	-0.0044	TWD	18.67	20.05
AUD/GBP	0.5280	0.0003	0.0010	0.0027	0.0060	ZAR	11.98	12.86
USD Index	104.28					EQUITIES		
EUR/USD	1.0719	0.0019	0.0055	0.0103	0.0188		Index	
USD/JPY	140.13	-0.67	-2.02	-4.03	-7.84	NZX50	11,960	
GBP/USD	1.2317	0.0008	0.0018	0.0019	-0.0010	ASX200	7,138	
EUR/GBP	0.8701	0.0009	0.0031	0.0068	0.0159	Dow Jones	32,775	
						S&P 500	4,161	
INTEREST RATES			New Zealand		Australia	FTSE100	7,571	
			Mid		Mid	DAX 30	15,794	
30 day bank bills			5.63%		3.87%	Nikkei	30,801	
90 day bank bills			5.72%		3.98%	COMMODITIES		
1 year swap			5.72%		4.04%		USD	
2 year swap			5.23%		3.93%	Brent Crude	76.27	
3 year swap			4.87%		3.83%	Gold	1,939.68	
5 year swap			4.53%		3.71%	Silver	22.71	
10 year swap			4.42%		4.01%	Iron Ore	105.56	
3 year Govt bond			4.56%		3.47%	CRB Index	285.96	
5 year Govt bond			4.36%		3.48%		NZD	
10 year Govt bond			4.43%		3.79%	NZ Carbon	54.00	

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