

Market Alert

Wednesday 3 May 2023

CURRENCIES	Spot	6mths
NZD/USD	0.6205	-0.0012
NZD/AUD	0.9313	-0.0077
NZD/JPY	84.72	-2.47
NZD/EUR	0.5639	-0.0063
NZD/GBP	0.4973	-0.0022
NZD/CNH	4.3026	-0.0727
AUD/USD	0.6664	0.0041
AUD/EUR	0.6054	-0.0019
EUR/USD	1.1006	0.0099
USD/CNH	6.9323	-0.1040
GBP/USD	1.2473	0.0025
EUR/GBP	0.8821	0.0056

INT RATES	NZ	Australia
OCR/Cash	5.25%	3.85%
90 day bills	5.62%	3.74%
2 year swap	5.10%	3.64%
10 year Govt	4.21%	3.53%

Central banks continue to worry about inflation!

The RBA just took a leaf out of the RBNZ's book with a surprise rate hike, although, the RBA hike was for a far more accommodating 25bps to lift the cash rate to 3.85%. The RBA statement justified the hike stating the "priority remains returning inflation to target. The rate rise will help anchor inflation expectations. Some further tightening of monetary policy may be required. Inflation is seen at 4.5% in 2023, 3.0% in Mid-2025." In a Q&A session later in the day, the Governor added, "the board had strong consensus to hike rates. It would be a good result if we could get inflation to 3.0% in two years (although) getting inflation down much faster would cost too many jobs. Australia needs to raise productivity growth."

One concern highlighted by the RBA were larger than expected increases in both prices and wages, especially given the limited spare capacity in the economy and the historically low unemployment rate.

Post hike, Australian swap rates rallied strongly in the short end of the curve while the AUD. The AUD is only 40bps higher against the USD than its pre-announcement level while the 3-year swap is 'just' 8bps higher. Interestingly, the surprise hike also underpinned the NZD on the assumption that the RBNZ may go even further, with the NZD/AUD maintain its pre-announcement level, despite dropping almost a cent in the immediate aftermath.

I'm not sure which country the RBNZ is living in, but they are "not currently seeing widespread financial distress amongst households or businesses, which reflects the strength in the economy. Household balance sheets remain resilient on aggregate, with most households with a mortgage still having substantial equity buffers. For households with a mortgage, the share of disposable income required to service the interest component of their mortgage debt is expected to more than double from its recent low of 9.0% to around 22.0% by the end of this year." Nice that they only look at the interest component! Mind you, there was the warning that, "more borrowers may fall behind on their payments this year, given the ongoing repricing of mortgages and weakening in the labour market!"

On a positive note, the overnight GDT auction produced a good result rallying 2.5% with WMP the standout performer surging 5.0%, while cheddar and skim gained 4.5% and 1.5% respectfully.

Looking beyond Australasia!

In terms of data releases, US job openings slipped to a 2-year low at 9.59 million, factory orders rebounded from two consecutive months of decline rising 0.9%, and the Logistics index fell to a new low at 50.9. Euro-area core inflation increased to 7.0% in April from March's 6.9%, the core index eased to 5.6%, just below last month's all-time high of 5.7%.

US Treasury Secretary Janet Yellen suggested, "the Treasury will likely be unable to meet all of its US government payment obligations by early June."

The IMF upgraded its Asian GDP projections from 2022s 3.8% to 4.6% in 2023 citing "Asia and Pacific will be the most dynamic of the world's major regions in 2023, predominantly driven by the buoyant outlook for China and India." In Australia and New Zealand, weakening domestic demand linked to monetary tightening, rising mortgage payments, and lower real disposable income is expected to dampen 2023 growth prospects to 1.6% and 1.1% respectively.



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Daily Rates

Wednesday 3 May 2023

FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	70.70					CAD	0.8452	0.9078
NZD/USD	0.6205	-0.0001	-0.0004	-0.0012	-0.0041	CHF	0.5539	0.5950
NZD/AUD	0.9313	-0.0013	-0.0038	-0.0077	-0.0145	CNY	4.2848	4.6020
NZD/JPY	84.72	-0.40	-1.24	-2.47	-4.98	DKK	4.2018	4.5126
NZD/EUR	0.5639	-0.0011	-0.0032	-0.0063	-0.0125	FJD	1.3569	1.4572
NZD/GBP	0.4973	-0.0005	-0.0012	-0.0022	-0.0047	HKD	4.8709	5.2312
						KRW	832.61	894.20
AU TWI	60.80					MYR	2.7687	2.9735
AUD/USD	0.6664	0.0008	0.0023	0.0041	0.0058	NOK	6.7039	7.1999
AUD/NZD	1.0734	0.0014	0.0042	0.0085	0.0151	SEK	6.3918	6.8647
AUD/JPY	90.96	-0.32	-0.97	-1.94	-4.08	SGD	0.8280	0.8892
AUD/EUR	0.6054	-0.0004	-0.0011	-0.0019	-0.0042	TWD	19.11	20.52
AUD/GBP	0.5341	0.0002	0.0008	0.0019	0.0030	ZAR	11.45	12.30
USD Index	101.90					EQUITIES		
EUR/USD	1.1006	0.0020	0.0055	0.0099	0.0166		Index	
USD/JPY	136.51	-0.64	-1.90	-3.72	-6.97	NZX50	12,038	
GBP/USD	1.2473	0.0008	0.0020	0.0025	0.0016	ASX200	7,267	
EUR/GBP	0.8821	0.0009	0.0028	0.0056	0.0112	Dow Jones	33,685	
						S&P 500	4,118	
INTEREST RATES			New Zealand		Australia	FTSE100	7,773	
			Mid		Mid	DAX 30	15,727	
30 day bank bills			5.48%		3.67%	Nikkei	29,158	
90 day bank bills			5.62%		3.74%	COMMODITIES		
1 year swap			5.64%		3.72%		USD	
2 year swap			5.10%		3.64%	Brent Crude	75.32	
3 year swap			4.69%		3.62%	Gold	2,017.08	
5 year swap			4.31%		3.42%	Silver	25.36	
10 year swap			4.19%		3.76%	Iron Ore	103.61	
3 year Govt bond			4.40%		3.22%	CRB Index	287.39	
5 year Govt bond			4.16%		3.25%		NZD	
10 year Govt bond			4.21%		3.53%	NZ Carbon	54.25	

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