

Market Alert

Thursday 27 July 2023

CURRENCIES	Spot	6mths
NZD/USD	0.6224	-0.0001
NZD/AUD	0.9199	-0.0058
NZD/JPY	87.27	-2.62
NZD/EUR	0.5611	-0.0057
NZD/GBP	0.4808	-0.0001
NZD/CNH	4.4501	-0.0752
AUD/USD	0.6765	0.0040
AUD/EUR	0.6098	-0.0022
EUR/USD	1.1092	0.0105
USD/CNH	7.1487	-0.1189
GBP/USD	1.2946	-0.0004
EUR/GBP	0.8567	0.0080

INT RATES	NZ	Australia
OCR/Cash	5.50%	4.10%
90 day bills	5.71%	4.40%
2 year swap	5.45%	4.31%
10 year Govt	4.74%	4.07%

US hopes of a 'soft landing'

The Fed raised its benchmark interest rate by 25bp this morning, to a range of 5.25%-5.50%, as widely expected. Financial markets took the announcement in their stride, with the US 10-year treasury yield down only a couple of points to 3.85%. Currency and equity markets also well behaved. The NZD/USD starts today near 0.6220, similar to yesterday's level.

The latest hike takes the US benchmark rate to its highest level in 22 years. Although the Fed has kept the door open to further hikes and is no longer forecasting a recession ahead for the US economy, markets expect today's hike - the eleventh increase since early 2022 - will be the last in this cycle. US headline

inflation has cooled to 3.0% in June, down from a peak of over 9.0% last year when prices were rising at their fastest pace in four decades. The US economy has held up better than many expected, with the Fed describing the economy as still expanding at a "moderate" pace. Inflation is not expected to return to target until 2025.

Market focus will now shift to the ECB, which is also expected to deliver a 25bp hike tonight to 3.50% - which would also be their highest level in 22 years.

Australian CPI lower

Inflation data from Australia for the June quarter came in at 0.8%, slightly lower than expectations of 1.0%, while the annual rate fell from 7.0% to 6.0%, meeting expectations and matching the New Zealand rate. The annualised quarterly rate rose 3.2%, confirming the slowing trend.

Australian Treasurer Jim Chalmers said, "there is a long way to go to beat inflation", and that, "inflation is moving in the right direction". Market pricing is consistent with a further hike from the RBA, although much will depend on how the data evolves over the coming months. The AUD/USD fell immediately after the inflation data, but the move was reversed following the Fed announcement. Australian yields moved lower, with the 5-year swap rate easing almost 10 basis points lower to around 4.30%.

The IMF has weighed in on the BoJ's policy stance, with chief economist Pierre-Olivier Gourinchas stating, "right now, the risk is probably on the upside, that maybe inflation pressures will continue to remain above the target" and "our advice for Japanese authorities is that right now, monetary policy can remain accommodative, but it needs to prepare itself for the need to maybe start hiking". It also suggested the BoJ could "be a bit more flexible and maybe move away from the yield-curve control that it has now."

The NZD/JPY continues to hold above 87.00, not far off its 8-year high.



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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	71.30					CAD	0.8217	0.8932
NZD/USD	0.6224	0.0000	0.0000	-0.0001	-0.0014	CHF	0.5355	0.5820
NZD/AUD	0.9199	-0.0010	-0.0030	-0.0058	-0.0108	CNY	4.4436	4.8290
NZD/JPY	87.27	-0.42	-1.30	-2.62	-5.15	DKK	4.1806	4.5436
NZD/EUR	0.5611	-0.0009	-0.0027	-0.0057	-0.0113	FJD	1.3618	1.4800
NZD/GBP	0.4808	-0.0001	-0.0001	-0.0001	0.0002	HKD	4.8566	5.2779
						KRW	790.77	859.37
AU TWI	62.00					MYR	2.8305	3.0760
AUD/USD	0.6765	0.0007	0.0021	0.0040	0.0059	NOK	6.2838	6.8289
AUD/NZD	1.0865	0.0011	0.0033	0.0065	0.0113	SEK	6.4672	7.0282
AUD/JPY	94.84	-0.36	-1.10	-2.28	-4.55	SGD	0.8246	0.8962
AUD/EUR	0.6098	-0.0003	-0.0009	-0.0022	-0.0051	TWD	19.42	21.11
AUD/GBP	0.5225	0.0005	0.0015	0.0031	0.0065	ZAR	10.95	11.90
USD Index	100.99					EQUITIES		
EUR/USD	1.1092	0.0016	0.0050	0.0105	0.0187		Index	
USD/JPY	140.19	-0.68	-2.08	-4.18	-7.92	NZX50	11,955	
GBP/USD	1.2946	0.0002	0.0000	-0.0004	-0.0041	ASX200	7,402	
EUR/GBP	0.8567	0.0011	0.0036	0.0080	0.0174	Dow Jones	35,476	
						S&P 500	4,558	
INTEREST RATES			New Zealand		Australia	FTSE100	7,677	
			Mid		Mid	DAX 30	16,131	
30 day bank bills			5.65%		4.21%	Nikkei	32,668	
90 day bank bills			5.71%		4.40%	COMMODITIES		
1 year swap			5.79%		4.44%		USD	
2 year swap			5.45%		4.33%	Brent Crude	82.82	
3 year swap			5.10%		4.20%	Gold	1,973.67	
5 year swap			4.71%		4.28%	Silver	24.94	
10 year swap			4.55%		4.43%	Iron Ore	112.72	
3 year Govt bond			5.07%		3.95%	CRB Index	313.54	
5 year Govt bond			4.81%		3.91%		NZD	
10 year Govt bond			4.74%		4.07%	NZ Carbon	65.25	

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