

Market Alert

Friday 4 August 2023

CURRENCIES	Spot	6mths
NZD/USD	0.6068	0.0000
NZD/AUD	0.9269	-0.0058
NZD/JPY	86.59	-2.55
NZD/EUR	0.5547	-0.0054
NZD/GBP	0.4778	-0.0004
NZD/CNH	4.3589	-0.0732
AUD/USD	0.6547	0.0041
AUD/EUR	0.5983	-0.0021
EUR/USD	1.0940	0.0105
USD/CNH	7.1826	-0.1203
GBP/USD	1.2700	0.0005
EUR/GBP	0.8615	0.0075

INT RATES	NZ	Australia
OCR/Cash	5.50%	4.10%
90 day bills	5.70%	4.23%
2 year swap	5.45%	4.18%
10 year Govt	4.84%	4.18%

The BoE becomes the first central bank to state the 'higher-for-longer' rhetoric!

The BoE opted for a smaller than expected rate hike, going for 25bps after June's 50bps. The UK's benchmark cash rate is now at a 15-year high at 5.25%. In the statement there were plenty of references to the upside risks associated with inflation, as well as the recent surprise in wage growth, with the forward guidance suggesting the central bank could hike again if there was "evidence of more persistent pressures" while also warning that the fight against inflation may require higher borrowing requirements for a 'prolonged period'. Financial markets are pricing in another two 25bps rate hikes by year end.

Financial markets retained their concerns over the US government debt

downgrade with the 10-year yield 12bps higher at 4.19%, a level not seen since the beginning of last November. The data releases continued to highlight the robust labour market, after initial claims were slightly higher than expected at 227k, while both labour costs fell to 1.6% and productivity increased to 3.7% to beat forecasts. ISM services PMIs also fell to 52.7 from June's 4-month high at 53.9.

In the other data releases, Eurozone PPIs fell -3.4% in the year to June, following May's -1.6% fall and against expectations for a -3.2% drop, while the German trade surplus grew to EUR18.7bn versus the EUR15.0bn expected. Chinese Caixin PMIs were also mixed with manufacturing falling into contractionary territory at 49.2, services firming to 54.1, which saw the overall composite ease back to 51.09 from 52.5.

The Australasian releases saw Australian June exports fall -2.0% on the month against a -4% fall in imports, which generated an overall surplus of AUD11.32bn, which was higher than the forecast AUD11.25bn. Meanwhile, Q2 retail sales also fell -0.5% following Q1's -0.8% contraction while, in NZ, our commodity price index fell -2.6% in July following June's -1.7% contraction. In NZD terms, the index fell -3.8% as the NZD depreciated -1.2%.

The fallout from the BoJ's ambiguous YCC announcement continues to impact the JGB markets after the yield on the 10-year bond reached its highest since April 2014 as the BoJ intervened buying

'unlimited' amounts of 5 to 10 year JGBs! There was some positive news though as the JPY staged a modest recovery.

With all the activity and focus on surging bond yields, it's no surprise to see equity markets lower across the board, although they haven't sold-off as much as you would have thought, falling between -0.15% to -0.75%, although the Nikkei is down -1.75%. Commodity markets were mixed while FX markets were steady, although no-one likes the NZD as it was, once again, the worst performer.

Everyone has a view ... but only one can be right!

With bond markets firmly in the crosshairs on investors, it's perhaps not surprising to see a few investors starting to talk-up their positioning. First up was Bill Ackman, founder and CEO of Pershing Square Capital who announced he is shorting bonds citing, "structural changes that are likely to lead to higher levels of long-term inflation including de-globalization, higher defense costs, the energy transition, growing entitlements, and the greater bargaining power of workers. As a result, I would be very surprised if we don't find ourselves in a world with persistent ~3% inflation." Conversely, Warren Buffett announced he likes Treasuries after Berkshire acquired USD20bn in the past 2-weeks.

Finally, one of the local banks has reiterated its 2023 year-end oil price target of USD100 per barrel.



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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	0.8104	0.8743
NZD/USD	0.6068	0.0000	0.0000	0.0000	-0.0011	CHF	0.5311	0.5731
NZD/AUD	0.9269	-0.0010	-0.0029	-0.0058	-0.0117	CNY	4.3507	4.6934
NZD/JPY	86.59	-0.41	-1.24	-2.55	-5.05	DKK	4.1322	4.4584
NZD/EUR	0.5547	-0.0008	-0.0025	-0.0054	-0.0113	FJD	1.3278	1.4326
NZD/GBP	0.4778	-0.0001	-0.0002	-0.0004	-0.0006	HKD	4.7379	5.1119
						KRW	788.62	850.87
AU TWI	60.40					MYR	2.7640	2.9822
AUD/USD	0.6547	0.0007	0.0021	0.0041	0.0065	NOK	6.2174	6.7082
AUD/NZD	1.0786	0.0011	0.0033	0.0065	0.0124	SEK	6.4985	7.0114
AUD/JPY	93.41	-0.35	-1.05	-2.18	-4.34	SGD	0.8140	0.8782
AUD/EUR	0.5983	-0.0002	-0.0009	-0.0021	-0.0048	TWD	19.21	20.73
AUD/GBP	0.5155	0.0005	0.0014	0.0029	0.0059	ZAR	11.35	12.25
USD Index	102.56					EQUITIES		
EUR/USD	1.0940	0.0016	0.0048	0.0105	0.0194		Index	
USD/JPY	142.67	-0.69	-2.05	-4.21	-8.01	NZX50	11,937	
GBP/USD	1.2700	0.0002	0.0004	0.0005	-0.0024	ASX200	7,312	
EUR/GBP	0.8615	0.0011	0.0033	0.0075	0.0166	Dow Jones	35,260	
						S&P 500	4,501	
INTEREST RATES			New Zealand		Australia	FTSE100	7,529	
			Mid		Mid	DAX 30	15,893	
30 day bank bills			5.66%		4.11%	Nikkei	32,159	
90 day bank bills			5.70%		4.23%	COMMODITIES		
1 year swap			5.79%		4.31%		USD	
2 year swap			5.45%		4.19%	Brent Crude	85.16	
3 year swap			5.14%		4.07%	Gold	1,932.94	
5 year swap			4.81%		4.22%	Silver	23.56	
10 year swap			4.70%		4.53%	Iron Ore	107.41	
3 year Govt bond			5.06%		3.80%	CRB Index	311.24	
5 year Govt bond			4.83%		3.86%		NZD	
10 year Govt bond			4.84%		4.18%	NZ Carbon	57.75	

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