

Market Alert

Monday 7 August 2023

CURRENCIES	Spot	6mths
NZD/USD	0.6093	-0.0001
NZD/AUD	0.9280	-0.0058
NZD/JPY	86.36	-2.55
NZD/EUR	0.5518	-0.0053
NZD/GBP	0.4778	-0.0003
NZD/CNH	4.3699	0.0000
AUD/USD	0.6557	0.0040
AUD/EUR	0.5954	-0.0020
EUR/USD	1.1010	0.0104
USD/CNH	7.1868	0.0000
GBP/USD	1.2748	0.0005
EUR/GBP	0.8633	0.0077

INTR RATES	NZ	Australia
OCR/Cash	5.50%	4.10%
90 day bills	5.67%	4.24%
2 year swap	5.51%	4.17%
10 year Govt	4.90%	4.27%

Payrolls support US 'soft' landing narrative

The monthly US payrolls data showed 187k jobs added in the month of July, slightly below the 200k markets had been looking for but in line with the 195k added in June and sufficient to avoid any material re-evaluation of US economic slowdown risks. The unemployment rate sank back from 3.6% to 3.5%, near a record low, while average hourly earnings held steady at 4.4%. All in all, the data points to a slowly deflating labour demand picture, consistent with the 'soft landing' narrative. With US Q3 data already looking solid, JPMorgan economists now no longer expect a US recession 'this calendar year'.

The initial reaction to the non-farm payrolls report was to sell the USD but then the market had a look at the higher wage data and there was a recovery. The half a cent gain in both the NZD and AUD against the USD quickly reversed, leaving the currencies where they started the session.

US yields dropped 10-15bp across the curve on Friday, amidst growing calls that the Fed can tame inflation while avoiding a recession and that the July rate hike was likely the final one before an extended pause.

The US 10-year Treasury yield starts the week at 4.03% after spiking as high as 4.20% briefly last week. Equities also struggled, the S&P 500 down 0.5% on Friday and down 2.3% over the week. Mixed results saw Amazon shares surge, while Apple dropped 4.6%.

The week ahead features the US CPI report, expected to show a moderate 0.2% monthly rise in CPI for a second month, allowing markets to shift from thinking about more Fed hikes to pondering when in 2024 the cuts will begin.

Australia's slow return to inflation target

The August Statement on Monetary Policy was released on Friday and provided an update to the RBA's inflation track. Both headline inflation and

trimmed mean inflation are forecast to reach 2.8% by the end 2025, raising question marks around the RBA's commitment to returning inflation to target in a reasonable timeframe.

The growth forecast for 2023 has been lowered from 1.2% to 0.9% and from 1.7% to 1.6% for 2024. The forecast for the unemployment rate was lowered marginally for 2023 (4.0% to 3.9%) but remains the same for 2024, at 4.4%. Importantly, the forecasts imply no further rate increases from the RBA as it waits to assess the cumulative impact of the rapid tightening delivered to date. Most bank economists now see a long pause from the RBA.

Oil on the up

Bad news for inflation everywhere is the continued rise in oil, which has recorded a sixth weekly gain on the back of Saudi production cuts. The cuts have taken production to the lowest level in years. It is said that Saudi needs oil prices near \$100 per barrel to match its spending commitments, but persistently high prices could rekindle global inflationary pressures. After trading below \$67 in June, WTI has been in an upward trajectory and spiked over \$83 on Friday. It's a similar story for Brent, which is now over \$86 a barrel, up from below \$72 in June.

Daily Rates

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FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	70.70					CAD	0.8148	0.8790
NZD/USD	0.6093	0.0000	0.0000	-0.0001	-0.0011	CHF	0.5317	0.5705
NZD/AUD	0.9280	-0.0011	-0.0030	-0.0058	-0.0119	CNY	4.3958	4.7365
NZD/JPY	86.36	-0.42	-1.24	-2.55	-4.99	DKK	4.1233	4.4373
NZD/EUR	0.5518	-0.0008	-0.0025	-0.0053	-0.0109	FJD	1.3333	1.4348
NZD/GBP	0.4778	-0.0001	-0.0002	-0.0003	-0.0001	HKD	4.7593	5.1217
						KRW	794.58	855.09
AU TWI	60.70					MYR	2.7741	2.9854
AUD/USD	0.6557	0.0007	0.0020	0.0040	0.0066	NOK	6.1581	6.6270
AUD/NZD	1.0771	0.0012	0.0033	0.0065	0.0131	SEK	6.4483	6.9394
AUD/JPY	93.11	-0.38	-1.06	-2.18	-4.34	SGD	0.8161	0.8782
AUD/EUR	0.5954	-0.0003	-0.0008	-0.0020	-0.0049	TWD	19.29	20.75
AUD/GBP	0.5142	0.0004	0.0014	0.0029	0.0059	ZAR	11.24	12.10
USD Index	102.01					EQUITIES		
EUR/USD	1.1010	0.0016	0.0049	0.0104	0.0193		Index	
USD/JPY	141.75	-0.69	-2.04	-4.17	-7.92	NZX50	11,943	
GBP/USD	1.2748	0.0002	0.0004	0.0005	-0.0023	ASX200	7,325	
EUR/GBP	0.8633	0.0011	0.0035	0.0077	0.0170	Dow Jones	35,066	
						S&P 500	4,478	
INTEREST RATES			New Zealand		Australia	FTSE100	7,564	
			Mid		Mid	DAX 30	15,952	
30 day bank bills			5.64%		4.11%	Nikkei	32,193	
90 day bank bills			5.67%		4.24%	COMMODITIES		
1 year swap			5.83%		4.29%		USD	
2 year swap			5.51%		4.18%	Brent Crude	86.24	
3 year swap			5.19%		4.13%	Gold	1,941.62	
5 year swap			4.87%		4.16%	Silver	23.60	
10 year swap			4.76%		4.54%	Iron Ore	105.18	
3 year Govt bond			5.12%		3.92%	CRB Index	312.38	
5 year Govt bond			4.91%		3.96%		NZD	
10 year Govt bond			4.90%		4.27%	NZ Carbon	58.00	

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