

Market Alert

Tuesday 14 November 2023

CURRENCIES	Spot	6mths
NZD/USD	0.5885	0.0003
NZD/AUD	0.9221	-0.0044
NZD/JPY	89.26	-2.58
NZD/EUR	0.5503	-0.0044
NZD/GBP	0.4795	-0.0005
NZD/CNH	4.2923	-0.0557
AUD/USD	0.6381	0.0033
AUD/EUR	0.5964	-0.0019
EUR/USD	1.0695	0.0087
USD/CNH	7.2918	-0.0977
GBP/USD	1.2267	0.0015
EUR/GBP	0.8716	0.0058

INT RATES	NZ	Australia
OCR/Cash	5.50%	4.35%
90 day bills	5.66%	4.47%
2 year swap	5.36%	4.50%
10 year Govt	5.26%	4.76%

Looking at the screens this morning...

... nothing appears to have changed! Surely something happened overnight?

Looking at the data releases, there wasn't much... US consumer inflation expectations for the year ahead decreased from 3.7% to 3.6%, while forecasts for the Euro-area have inflation falling below the ECB's 2.0% target by early 2025. The German current account surplus increased to EUR28.1bn as imports plummeted -18.6% and exports declined at a slower -9.2%, while Chinese yuan loans grew at their slowest pace since April 2022 after new financing of 1.85trn yuan (USD254bn) missed forecasts at 1.95trn yuan. Finally, following last week's announcement that NZ manufacturing PMIs plummeted

from 45.3 to 42.5, service PMIs fell into contractionary territory as well, falling from 50.6 to 48.9 in September, which was below the long-term average of 53.5.

Surely then someone said something interesting? Well the only speaker of note was RBA Assistant Governor Marion Kohler who announced, *"The decline in inflation will be more gradual than previously thought. Bringing inflation back to target is likely to be more drawn out. The key risk is that high inflation feeds into inflation expectations although, encouragingly, measures of medium-term inflation expectations remain consistent with our target. There is no doubt that the RBA cash rate is at a restrictive level. There is the risk of shocks, the road ahead could be bumpy."*

These comments saw one of the 'big 4' suggest the RBA will hold the cash rate... for now... but there are risks! Really? With such insightful analysis it's no wonder these guys get paid the big bucks!

So, with the overnight data releases being second tier, and little chit-chat to stimulate, surely the markets attempted to generate some excitement by themselves? Well there was some activity in USD/JPY, which rallied to the 151.94 level, equal with its 2022 high and the pairs highest level since 1990! The NZD/AUD dropped -0.5% as the AUD outperformed at the margins but, apart from that, it was a quiet session... commodity markets firmed 1.0% - 2.0%, bond markets were quiet with the 10-

year Treasury yield down modestly to 4.63%, while equity markets were flat.

It feels like markets are awaiting tonight's US CPI data before deciding if further downward pressure on the yield curve is warranted. Last week's interest rate moves were large, and with markets expecting a monthly US headline CPI reading of just 0.1%, US themes are moving beyond a singular inflation focus.

The forecasting corner...

Barclays suggested the cure for plunging bond prices may be worse than the disease, given *"There is no magic yield level that will automatically draw in enough buyers to spark a sustained bond rally. We believe that the eventual path to bonds' stabilizing lies through a further re-pricing lower of risk assets."* Barclays also slashed their oil forecasts, suggesting global demand is softening.

Morgan Stanley is optimistically expecting the Fed to start *"cutting rates in June 2024, and then cut again in September and every meeting from Q4 2024 onwards with 25bps cuts each time taking the Fed Funds rate down to 2.375% by the end of 2025."* Against this Goldmans projects *"an initial 25bps reduction in Q4 2024, followed by one cut per quarter through to the middle of 2026 for a total of 175bps of cuts taking the Fed Funds rate down to a 3.50%-3.75% target range."*



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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	69.90					CAD	0.8118	0.8803
NZD/USD	0.5885	0.0000	0.0002	0.0003	-0.0002	CHF	0.5307	0.5754
NZD/AUD	0.9221	-0.0008	-0.0024	-0.0044	-0.0084	CNY	4.2893	4.6501
NZD/JPY	89.26	-0.42	-1.31	-2.58	-4.99	DKK	4.1035	4.4493
NZD/EUR	0.5503	-0.0006	-0.0022	-0.0044	-0.0097	FJD	1.3219	1.4333
NZD/GBP	0.4795	-0.0001	-0.0002	-0.0005	-0.0015	HKD	4.5946	4.9818
						KRW	777.37	842.89
AU TWI	60.10					MYR	2.7695	3.0029
AUD/USD	0.6381	0.0006	0.0018	0.0033	0.0048	NOK	6.5179	7.0673
AUD/NZD	1.0837	0.0008	0.0026	0.0048	0.0065	SEK	6.3789	6.9166
AUD/JPY	96.76	-0.38	-1.18	-2.35	-4.72	SGD	0.7996	0.8670
AUD/EUR	0.5964	-0.0002	-0.0009	-0.0019	-0.0059	TWD	19.01	20.62
AUD/GBP	0.5199	0.0003	0.0011	0.0019	0.0025	ZAR	11.01	11.94
USD Index	105.70					EQUITIES		
EUR/USD	1.0695	0.0012	0.0044	0.0087	0.0183		Index	
USD/JPY	151.64	-0.72	-2.26	-4.45	-8.42	NZX50	11,093	
GBP/USD	1.2267	0.0002	0.0008	0.0015	0.0029	ASX200	6,949	
EUR/GBP	0.8716	0.0009	0.0029	0.0058	0.0124	Dow Jones	34,339	
						S&P 500	4,412	
INTEREST RATES			New Zealand		Australia	FTSE100	7,426	
			Mid		Mid	DAX 30	15,345	
30 day bank bills			5.63%		4.33%	Nikkei	32,585	
90 day bank bills			5.66%		4.47%	COMMODITIES		
1 year swap			5.64%		4.56%		USD	
2 year swap			5.36%		4.52%	Brent Crude	82.37	
3 year swap			5.13%		4.47%	Gold	1,945.40	
5 year swap			4.95%		4.68%	Silver	22.27	
10 year swap			5.01%		4.95%	Iron Ore	128.07	
3 year Govt bond			5.14%		4.34%	CRB Index	310.05	
5 year Govt bond			5.10%		4.42%		NZD	
10 year Govt bond			5.26%		4.76%	NZ Carbon	69.75	

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