

Market Alert

Thursday 30 November 2023

CURRENCIES	Spot	6mths
NZD/USD	0.6162	-0.0001
NZD/AUD	0.9297	-0.0046
NZD/JPY	90.70	-2.65
NZD/EUR	0.5610	-0.0046
NZD/GBP	0.4845	-0.0006
NZD/CNH	4.3979	-0.0639
AUD/USD	0.6627	0.0031
AUD/EUR	0.6032	-0.0021
EUR/USD	1.0983	0.0088
USD/CNH	7.1370	-0.1025
GBP/USD	1.2716	0.0012
EUR/GBP	0.8636	0.0059

INT RATES	NZ	Australia
OCR/Cash	5.50%	4.35%
90 day bills	5.62%	4.37%
2 year swap	5.21%	4.26%
10 year Govt	4.94%	4.37%

So... the Governor stuck to his guns!

Should we have expected anything different? As the Governor said, "Let's keep those jets cooled!"

So let me get this right... the RBNZ is expecting inflation to return back into its 1.0%-3.0% band by Q3 2024, although they are not forecasting a cut in the OCR until mid-2025, but as the Governor mentioned during the Q&A session the transmission mechanism takes 18-24 months to impact. So, does that mean we shouldn't expect any interest rate relief until 2027? Then there's the fact that part of the rationale for the lifting of the Banks OCR projections is, in part, due to the fact the 2-year inflation expectations aren't coming down fast enough, and the 10-year inflation expectations

are increasing... but let's be honest, inflation expectations are just educated guesses and, judging by some economic forecasters, uneducated guesses as well!

I might be going out on a limb here, but I suspect we will see cuts before mid-2025 and, as my dad used to say, "If it doesn't look right and it doesn't taste right, don't swallow it!"

There was also a lot of chit-chat around immigration and how it will potentially add to inflation, but look at Australia where they had 681k immigrants in the 12-months to March, yet inflation fell to 4.9% in the year to October, down from September's 5.6% and below the expected 5.2%. The RBA has its final meeting of the year next Tuesday, these numbers should help quell any talk of a rate hike for the time being, although inflation remains well above the target 2-3% band. Third quarter construction output also beat forecasts in Australia, rising 1.3% in the three months to September 2023.

But despite the Governor's best endeavours to 'talk up' the market, most of the immediate gains were given up overnight. Yes, the NZD and swap rates are higher, but we are off the overnight highs as the USD-index stabilised overnight. This is slightly surprising as Treasury yields fell further overnight with the 10-year 7bps lower at 4.26% while the 2-year fell 6 bps to 4.68%. Interestingly, the USD's 'mixed' performance gave the off-shore yuan the boost it needed to hit a 5-month high

overnight below 7.12 per USD, while the Yen hit a 11-week high of around 147 per USD. Equity and commodity markets posted modest gains.

In the rest of the world...

US Q3 GDP was upgraded to its highest level since Q4 2021 at an annualized 5.2%, which was higher than the 4.9% preliminary estimate, Eurozone economic sentiment firmed from 93.5 to 93.8, while German inflation fell to 3.2% from 3.8%, which is expected to weigh on European inflation tonight.

Chicago Fed President, Austan Goolsbee, confirmed that, "Of all pieces of data, the housing inflation data is most paramount. I have some concern about keeping rates too high for too long. Once you believe you are on path to 2.0% inflation, the amount of restrictiveness needs to be less."

US hedge fund chief, Bill Ackman, offered his views for 2024 stating, "The Fed? I think they're going to cut rates and I think they're going to cut rates sooner than people expect. I think the market expects something in the middle of next year. I think it's probably as early as Q1."

RIP Charlie Munger, "Capitalism without failure is like religion without hell."



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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	71.50					CAD	0.8366	0.8999
NZD/USD	0.6162	0.0001	0.0001	-0.0001	-0.0014	CHF	0.5379	0.5786
NZD/AUD	0.9297	-0.0009	-0.0024	-0.0046	-0.0082	CNY	4.3875	4.7201
NZD/JPY	90.70	-0.50	-1.30	-2.65	-5.04	DKK	4.1816	4.4971
NZD/EUR	0.5610	-0.0008	-0.0022	-0.0046	-0.0104	FJD	1.3522	1.4542
NZD/GBP	0.4845	-0.0001	-0.0003	-0.0006	-0.0017	HKD	4.8096	5.1726
						KRW	795.14	855.15
AU TWI	61.40					MYR	2.8650	3.0812
AUD/USD	0.6627	0.0007	0.0018	0.0031	0.0041	NOK	6.5527	7.0472
AUD/NZD	1.0753	0.0010	0.0026	0.0050	0.0076	SEK	6.3740	6.8550
AUD/JPY	97.54	-0.44	-1.16	-2.36	-4.63	SGD	0.8206	0.8825
AUD/EUR	0.6032	-0.0003	-0.0008	-0.0021	-0.0061	TWD	19.26	20.71
AUD/GBP	0.5211	0.0004	0.0010	0.0019	0.0027	ZAR	11.51	12.38
USD Index	102.75					EQUITIES		
EUR/USD	1.0983	0.0017	0.0044	0.0088	0.0177		Index	
USD/JPY	147.19	-0.83	-2.14	-4.25	-7.87	NZX50	11,236	
GBP/USD	1.2716	0.0004	0.0008	0.0012	0.0008	ASX200	7,035	
EUR/GBP	0.8636	0.0010	0.0028	0.0059	0.0131	Dow Jones	35,551	
						S&P 500	4,565	
INTEREST RATES			New Zealand		Australia	FTSE100	7,423	
			Mid		Mid	DAX 30	16,166	
30 day bank bills			5.58%		4.28%	Nikkei	33,321	
90 day bank bills			5.62%		4.37%	COMMODITIES		
1 year swap			5.57%		4.43%		USD	
2 year swap			5.21%		4.26%	Brent Crude	82.76	
3 year swap			4.95%		4.18%	Gold	2,047.69	
5 year swap			4.73%		4.37%	Silver	25.09	
10 year swap			4.75%		4.67%	Iron Ore	130.40	
3 year Govt bond			4.99%		4.02%	CRB Index	311.23	
5 year Govt bond			4.84%		4.07%		NZD	
10 year Govt bond			4.94%		4.37%	NZ Carbon	73.50	

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