

Market Alert

Thursday 29 February 2024

CURRENCIES	Spot	6mths
NZD/USD	0.6092	-0.0003
NZD/AUD	0.9381	-0.0053
NZD/JPY	91.82	-2.61
NZD/EUR	0.5623	-0.0048
NZD/GBP	0.4814	-0.0007
NZD/CNH	4.3959	-0.0573
AUD/USD	0.6493	0.0033
AUD/EUR	0.5991	-0.0018
EUR/USD	1.0834	0.0085
USD/CNH	7.2146	-0.0906
GBP/USD	1.2655	0.0011
EUR/GBP	0.8559	0.0058

INT RATES	NZ	Australia
OCR/Cash	5.50%	4.35%
90 day bills	5.69%	4.39%
2 year swap	5.00%	4.02%
10 year Govt	4.79%	4.26%

Don't you love leap year ... it's the day we all get to work for free!

Following on from the RBNZs decision to maintain the OCR at 5.50%, the Q&A session was a surprisingly muted affair. Perhaps it was the dovish nature of the statement, the pessimistic outlook from reporters following the announcement that Newhub will close with almost 300 redundancies, or maybe it was the fact it was the logical call given New Zealand's slowing economy, but whatever it was, it was a tame affair.

The updated RBNZ projections highlighted downward revisions to their 2024 calendar year CPI and unemployment forecasts, while the bank's new OCR forecasts show the rate peaking at 5.60% this year, compared with 5.70% in its prior projections, with

rate cuts starting in H1 2025. The central bank also expects the economy will grow modestly this year and won't slip into recession, buoyed by record immigration, while house prices are seen slowly improving this year, rising by around 6.0% over the medium term.

In the Q&A, Governor Orr confirmed the committee considered raising rates but decided to hold on a "very strong consensus. We certainly didn't discuss a cut ... on the table was a hold or do we need to do more" as there are "some really persistent and challenging parts of the inflation picture." In saying that, he then added, "We anticipate seeing lower wage expectations and unemployment starting to rise" before calling for an improvement in productivity for better inflation outcomes. Mind you, yesterday's monthly employment data release showed a solid expansion in the labour market in January compared to 12-months ago with gross earnings rising 7.7%, with 2.8% of this coming from an expanded work force, suggesting that wages have been rising in-line with inflation.

The messaging of the Fed was also similar to that of our own Mr. Orr with Atlanta Fed President, Raphael Bostic, announcing, "There is still work to do on inflation. We are comfortable being patient on policy." Boston chief, Susan Collins, then added, "I see the risks are more balanced between cutting too early and too late. We should be taking our time on policy," while NY's John Williams confirmed, "There is still some way to go

before hitting the 2.0% inflation target. It will likely be an uneven path back to 2.0% inflation. Risks to the outlook exist on the up and down sides." Finally, Fed Governor, Michelle Bowman, maintained her view that, "While monetary policy appears to be at a restrictive level that will bring inflation down over time, I remain willing to raise the federal funds rate should the incoming data indicate that progress on inflation has stalled or reversed." The ECBs Nagel also toed-the-line with, "It would be fatal if the ECB cut rates too early only for inflation to rebound. The ECB needs confirmation that wage growth is moderating to a level that will let inflation fall back to target in 2025."

Breaking the overnight releases down, Q4 US GDP expanded at 3.2%, slightly below the advance estimate at 3.3%, Eurozone economic sentiment declined to 95.4 in February, down from January's revised 96.1 and short of market expectations of 96.7, while Australian inflation remained at its lowest level since November 2021, at 3.4% in the year to January, unchanged from December and below forecasts at 3.6%.

The RBNZs dovishness saw the NZD fall -1.2% against its peers in what was a USD-positive session, although NZD/AUD only eased -0.5% as the AUD also weakened following their CPI release. While bond markets were quiet, with the 10-year treasury yield -3bps lower at 4.28%, it should be noted that the local market is now pricing in 2 RBNZ rate cuts in 2024 with local swap rates now -18bps to -22bps lower.



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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	72.00					CAD	0.8268	0.8814
NZD/USD	0.6094	0.0000	0.0000	-0.0003	-0.0013	CHF	0.5354	0.5709
NZD/AUD	0.9383	-0.0009	-0.0027	-0.0053	-0.0098	CNY	4.3848	4.6741
NZD/JPY	91.83	-0.46	-1.35	-2.61	-4.96	DKK	4.1906	4.4664
NZD/EUR	0.5624	-0.0008	-0.0023	-0.0048	-0.0105	FJD	1.3681	1.4581
NZD/GBP	0.4816	-0.0001	-0.0003	-0.0007	-0.0019	HKD	4.7686	5.0825
						KRW	813.98	867.56
AU TWI	61.10					MYR	2.9041	3.0952
AUD/USD	0.6493	0.0006	0.0018	0.0033	0.0053	NOK	6.4534	6.8782
AUD/NZD	1.0655	0.0009	0.0029	0.0057	0.0103	SEK	6.2959	6.7103
AUD/JPY	97.87	-0.40	-1.15	-2.25	-4.33	SGD	0.8199	0.8738
AUD/EUR	0.5991	-0.0002	-0.0007	-0.0018	-0.0051	TWD	19.29	20.56
AUD/GBP	0.5130	0.0004	0.0011	0.0021	0.0032	ZAR	11.75	12.53
USD Index	103.96					EQUITIES		
EUR/USD	1.0834	0.0014	0.0041	0.0085	0.0178		Index	
USD/JPY	150.68	-0.73	-2.18	-4.20	-7.83	NZX50	11,763	
GBP/USD	1.2655	0.0002	0.0007	0.0011	0.0015	ASX200	7,660	
EUR/GBP	0.8559	0.0009	0.0027	0.0058	0.0127	Dow Jones	38,886	
						S&P 500	5,074	
INTEREST RATES			New Zealand		Australia	FTSE100	7,625	
			Mid		Mid	DAX 30	17,601	
30 day bank bills			5.61%		4.35%	Nikkei	39,208	
90 day bank bills			5.65%		4.39%	COMMODITIES		
1 year swap			5.52%		4.21%		USD	
2 year swap			5.01%		4.03%	Brent Crude	83.50	
3 year swap			4.71%		3.92%	Gold	2,031.44	
5 year swap			4.50%		4.13%	Silver	22.38	
10 year swap			4.57%		4.40%	Iron Ore	125.84	
3 year Govt bond			4.76%		3.78%	CRB Index	318.66	
5 year Govt bond			4.62%		3.87%		NZD	
10 year Govt bond			4.79%		4.26%	NZ Carbon	66.50	

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