

Market Alert

Thursday 25 February 2021

CURRENCIES	Spot	6mths
NZD/USD	0.7405	-0.0006
NZD/AUD	0.9326	-0.0011
NZD/JPY	78.45	-0.21
NZD/EUR	0.6097	-0.0028
NZD/GBP	0.5248	-0.0007
NZD/CNH	4.7742	0.0607
AUD/USD	0.7941	0.0003
AUD/EUR	0.6539	-0.0023
EUR/USD	1.2144	0.0047
USD/CNH	7.1227	0.0869
GBP/USD	1.4114	0.0008
EUR/GBP	0.8605	0.0029

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.10%
90 day bills	0.28%	0.02%
2 year swap	0.42%	0.12%
10 year Govt	1.69%	1.61%

Patience and courage

While RBNZ Governor, Adrian Orr, did a good job of providing a degree of realism in the statement and the subsequent media conference, he was not able to cap any of the existing trends and, as such, the trend remains your friend.

By warning of the risks and retaining all the stimulatory options, he stated the RBNZ is "able to alter policy settings if needed, and we have the optionality to meet our remit via the FLP, LSAP and OCR." Interestingly, he also added negative rates are an option available, but perhaps

its best if we let that sleeping dog lie! The Governor added he believes there is sufficient stimulus in place as "settings are consistent with achieving our objectives. (We) will watch, worry and wait as the data comes in, we just need patience and courage!"

Looking forward, Adrian Orr said it best when he stated "we need to see outcomes on inflation and employment, (but) if monetary conditions tighten too much, we will alter our settings."

The issue of higher interest rates was tentatively approached but the Governor emphasised the steeper curve was a reflection of rising growth and inflation expectations, although he then added "What we have done to date is well short of what we're capable of doing with our current LSAP programme and Funding for Lending Programme," before adding that it had generated "a downward influence on NZ interest rates," and that the Bank wants to remain "a downward influence on the yield curve."

In terms of the FPL programme, Deputy Governor, Christian Hawkesby, stated borrowings were in line with initial expectations, the facility gives banks confidence to pass on lower rates, and the Reserve Bank expects more drawings of the facility.

This prompted the Governor to add he is still expecting the local banks to fully pass on the benefits of lower rates.

To summarise

No changes, although there are still risks. The RBNZ retains all options and they do not anticipate hitting their inflation and employment targets until 2024. They added the classic comment "The NZD would be considerably higher if not for RBNZ policy actions." The statement was a mirror reflection of the recent Fed and the RBA's statements.

After the RBNZ statement and conference, NZD interest rates increased 4-10 points as the curve steepened, while the NZD broke to a new, higher range to be trading at 0.7410. And while the AUD/USD has outperformed as well, to be at 0.7945, the NZD/AUD cross has firmed to 0.9325. Internationally, the US 10 year government bond yield firmed to 1.37%, and equity bourses across Europe and the US are broadly 1.0% higher.

In other news, Fed Chair, Jerome Powell, testifying on Capitol Hill, emphasised the economy has a long way to go in its recovery and signs of prices rising will not necessarily lead to persistently high inflation. "Our policy is accommodative because unemployment is high, and the labour market is far from maximum employment." He characterised inflation as "soft" and said that while "inflation dynamics do change over time; they (just) don't change on a dime."



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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	76.50					CAD	0.9281 0.9952
NZD/USD	0.7405	-0.0001	-0.0002	-0.0006	-0.0014	CHF	0.6720 0.7206
NZD/AUD	0.9326	-0.0002	-0.0005	-0.0011	-0.0022	CNY	4.7813 5.1268
NZD/JPY	78.45	-0.03	-0.10	-0.21	-0.51	DKK	4.5347 4.8624
NZD/EUR	0.6097	-0.0005	-0.0014	-0.0028	-0.0061	FJD	1.4939 1.6019
NZD/GBP	0.5248	-0.0001	-0.0003	-0.0007	-0.0017	HKD	5.7423 6.1573
						KRW	820.63 879.94
AU TWI	65.00					MYR	2.9865 3.2023
AUD/USD	0.7941	0.0001	0.0002	0.0003	0.0004	NOK	6.2290 6.6791
AUD/NZD	1.0723	0.0002	0.0006	0.0012	0.0026	SEK	6.1406 6.5843
AUD/JPY	84.13	-0.02	-0.06	-0.13	-0.34	SGD	0.9774 1.0480
AUD/EUR	0.6539	-0.0004	-0.0011	-0.0023	-0.0049	TWD	20.61 22.10
AUD/GBP	0.5626	0.0000	0.0000	-0.0001	-0.0005	ZAR	10.7672 11.5453
USD Index	90.20						
EUR/USD	1.2144	0.0008	0.0024	0.0047	0.0099		
USD/JPY	105.96	-0.03	-0.10	-0.21	-0.49		
GBP/USD	1.4114	0.0002	0.0005	0.0008	0.0020		
EUR/GBP	0.8605	0.0005	0.0014	0.0029	0.0058		
INTEREST RATES	New Zealand		Australia				
	Borrow	Invest	Borrow	Invest			
30 day bank bills	0.28%	0.24%	0.02%	0.02%			
90 day bank bills	0.30%	0.26%	0.04%	0.00%			
FRA 90d in 3mths	0.30%	0.27%	0.06%	0.01%			
FRA 180d in 6mths	0.38%	0.35%	0.10%	0.06%			
1 year swap*	0.32%	0.30%	0.05%	0.04%			
2 year swap*	0.43%	0.41%	0.12%	0.12%			
3 year swap*	0.62%	0.60%	0.25%	0.25%			
5 year swap*	1.05%	1.03%	0.78%	0.77%			
10 year swap*	1.82%	1.80%	1.73%	1.71%			
10 year Govt bond		1.67%		1.61%			

* Semi-annual rate resets except AUD 1,2,3 year quarterly

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EQUITIES		Index
NZX50		12,282
ASX200		6,778
Dow Jones		31,981
S&P 500		3,925
FTSE100		6,659
DAX 30		13,976
Nikkei		29,672

COMMODITIES		USD
Dubai Light		62.10
Brent Crude		67.07
Gold		1,797.32
Silver		27.86
CRB Index		207.33



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