

Market Alert

Friday 26 February 2021

CURRENCIES	Spot	6mths
NZD/USD	0.7382	-0.0006
NZD/AUD	0.9354	-0.0008
NZD/JPY	78.29	-0.21
NZD/EUR	0.6062	-0.0028
NZD/GBP	0.5248	-0.0007
NZD/CNH	4.7954	0.0598
AUD/USD	0.7893	0.0001
AUD/EUR	0.6481	-0.0024
EUR/USD	1.2178	0.0047
USD/CNH	7.1227	0.0859
GBP/USD	1.4028	0.0008
EUR/GBP	0.8681	0.0029

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.10%
90 day bills	0.29%	0.02%
2 year swap	0.53%	0.19%
10 year Govt	1.87%	1.73%

Adventureland

Following on from yesterday's 'adventures' in New Zealand, overnight markets maintained their volatility with equity bourses across Europe and the US broadly down 1.0-2.0%. Tech shares led the slump with the Nasdaq down 2.7%, but don't worry, GameStop has jumped 220-odd percent over the last couple of days!

Meanwhile, the sell-off in global bonds deepened with the benchmark 10 year Treasury yield hitting a one-year high at 1.49% to be up 11 pips on the day as debt across the globe is coming under pressure.

The NZ interest rate curve is following international trends with yesterday's domestic announcement merely adding further fuel to the fire. Overnight, markets squeezed the rally further with the 2 year and 10 year local swap rates opening this morning at 0.53% and 2.075%, to provide a 2x10 year spread at 1.545%. This compares against 1.30% in the US curve and 1.72% in the Australian curve. Speaking of Australia, the RBA has been exercising yield curve control targeting the 3 year yield at 0.10%, although it is starting to get away from them as its currently yielding 0.135%!

FX markets have been a roller coaster over the past 48 hours with the NZD/USD hitting a high at 0.7466 over night before retracing to 0.7400. Since the NZ open this morning, further profit taking has seen the cross fall further to the 0.7385 level.

The AUD/USD has also followed a similar trend topping out at 0.8008 before falling to 0.7900, which has seen the NZD/AUD cross firm to 0.9355.

Ultimately, investors are betting on a sunnier outlook for the global economy, with the US jobless claims data the latest to support that idea. However, they are also staring down the risk curve that accelerating inflation is just around the corner and trying to gauge what that might mean for markets.

In terms of the actual numbers, initial claims dropped by 111,000 to 730,000, its lowest level in 3 months and way

ahead of the expected 838,000. The US economy also expanded at an annualised rate of 4.1% in Q4 2020, slightly higher than the advance estimate of 4.0%, while manufactured durable goods jumped 3.4% in January, accelerating from an upwardly revised 1.2% increase in December and well above market expectations of 1.1%.

In the Eurozone, the economic sentiment indicator increased to 93.4 in February to record its highest print since March 2020, while the German GfK consumer climate indicator increased to -12.9 in March, rebounding from February's -15.5. Finally, Australian capex data for Q4 headlined at +3.0% for the quarter against an expected +1.0%.

Investors beware

With the New Zealand Finance Minister essentially throwing his hands up in the air and passing the housing issue over to the central bank, and the Reserve Bank of New Zealand ("RBNZ") "*welcomes the Minister's request for more information and analysis on debt-to-income ratios and interest-only mortgages, and (we) will respond in due course.*" We should remember that at the Wednesday Q&A session the Governor, Adrian Orr, stated "*initial demand for houses is past its peak.*" The RBNZ will naturally re-examine its macro prudential tools to target investors, but we suspect we may not see much change for the rest.



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