

Market Alert

Monday 1 March 2021

| CURRENCIES | Spot | 6mths |
|------------|--------|---------|
| NZD/USD | 0.7239 | -0.0004 |
| NZD/AUD | 0.9384 | -0.0007 |
| NZD/JPY | 77.12 | -0.21 |
| NZD/EUR | 0.5996 | -0.0028 |
| NZD/GBP | 0.5248 | -0.0006 |
| NZD/CNH | 4.6870 | 0.0589 |
| AUD/USD | 0.7715 | 0.0002 |
| AUD/EUR | 0.6392 | -0.0024 |
| EUR/USD | 1.2070 | 0.0049 |
| USD/CNH | 7.1227 | 0.0852 |
| GBP/USD | 1.3951 | 0.0008 |
| EUR/GBP | 0.8652 | 0.0030 |

| INT RATES | NZ | Australia |
|--------------|-------|-----------|
| OCR/Cash | 0.25% | 0.10% |
| 90 day bills | 0.31% | 0.03% |
| 2 year swap | 0.48% | 0.17% |
| 10 year Govt | 1.90% | 1.92% |

Another month, another lockdown

Welcome to March 2021, exactly one year since New Zealand's first case of COVID-19!

Last week's standoff between central banks and bond traders took centre stage on Friday after Treasury yields retraced following a surge 1-year highs late on Thursday.

The rollercoaster in international bond yields underscored how investors are fretting about an acceleration in inflation while central banks will be concerned that the financial markets are becoming

'over-confident' about the recovery and will look to temper that 'enthusiasm.'

We saw the first signs of this on Friday with RBNZ Governor, Adrian Orr, stating he may have to stimulate the economy further, with the old classic *"negative rates are an option."* And just to keep everyone completely confused, he added *"the New Zealand dollar (is) operating somewhere near vast groups of people's models of fair value."* He then commented on the addition of house prices into the MPC's remit emphasising that it wouldn't alter the RBNZ's commitment to providing stimulus as *"Our Monetary Policy Committee remit targets remain unchanged. We remain only focused on maintaining low and stable consumer price inflation and contributing to maximum sustainable employment."*

Next up was the RBA who purchased more than AUD2 billion of bonds in unscheduled purchases with, we suspect, a fair chunk in the 3-years given that it is yielding 0.14% above its 0.10% target. Later in the session, BoJ Governor, Haruhiko Kuroda, stated that the BoJ is committed to anchoring the yield curve at its target stating, *"It's important to keep the entire yield curve low and stable now as the pandemic deals a blow to the economy. I want you to understand that we aren't aiming to raise our target from around 0%."* As a reminder, a senior BoJ official stated that the risks to the Japanese economy and inflation outlook are skewed to the downside.

To add a little bit of further chaos into the financial 'cake,' the US airstrike on an Iranian-backed militant group in Syria saw safe-haven demand buying of the USD.

Ultimately, the deepening divide between traders and central banks over the pace of the economic recovery looks set to lead to days of central bank rhetoric and chest-puffing as policymakers seek to retain control over borrowing costs. The rapid repricing of the 'reflation trade' is rippling through all markets, putting pressure on valuations and hurting government debt auctions.

Last week saw equities across Asia, Europe and the US all close in the red, although the Nasdaq saw profit taking off to close up on the day. The US 10-year yield eventually closed at 1.40% after reaching 1.52%, while the NZD/USD and AUD/USD were both hit hard on USD buying to be at 0.7235 and 0.7705.

Meanwhile, in China

Liu Shijin, a policy adviser to the PBoC, announced Chinese GDP could grow 8.0-9.0% in 2021, although this would not mean China has returned to a *"high-growth"* environment, looking at growth out over the next two years, if it should average around 5.0%. This wasn't helped by manufacturing PMIs, which fell to a 9-month low of 50.6 as export orders plunged.



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Daily Rates

Monday 1 March 2021

| FX | Spot | FECs (mid) | | | | Spot Mid | | |
|-----------|--------|------------|---------|---------|---------|--------------------|---------|--------------|
| | Mid | 1mth | 3mths | 6mths | 12mths | NZD/... | AUD/... | |
| NZ TWI | 75.57 | | | | | CAD | 0.9215 | 0.9820 |
| NZD/USD | 0.7239 | 0.0000 | -0.0001 | -0.0004 | -0.0013 | CHF | 0.6575 | 0.7006 |
| NZD/AUD | 0.9384 | -0.0001 | -0.0004 | -0.0007 | -0.0017 | CNY | 4.6824 | 4.9900 |
| NZD/JPY | 77.12 | -0.03 | -0.09 | -0.21 | -0.52 | DKK | 4.4593 | 4.7523 |
| NZD/EUR | 0.5996 | -0.0005 | -0.0013 | -0.0028 | -0.0060 | FJD | 1.4593 | 1.5551 |
| NZD/GBP | 0.5248 | -0.0001 | -0.0003 | -0.0006 | -0.0016 | HKD | 5.6104 | 5.9790 |
| | | | | | | KRW | 813.63 | 867.08 |
| AU TWI | 64.50 | | | | | MYR | 2.9779 | 3.1735 |
| AUD/USD | 0.7715 | 0.0001 | 0.0002 | 0.0002 | 0.0000 | NOK | 6.2674 | 6.6791 |
| AUD/NZD | 1.0657 | 0.0001 | 0.0004 | 0.0008 | 0.0020 | SEK | 6.1044 | 6.5054 |
| AUD/JPY | 82.21 | -0.02 | -0.07 | -0.16 | -0.41 | SGD | 0.9647 | 1.0280 |
| AUD/EUR | 0.6392 | -0.0004 | -0.0012 | -0.0024 | -0.0052 | TWD | 20.16 | 21.49 |
| AUD/GBP | 0.5530 | 0.0000 | -0.0001 | -0.0002 | -0.0007 | ZAR | 10.9588 | 11.6788 |
| USD Index | 90.88 | | | | | | | |
| EUR/USD | 1.2070 | 0.0010 | 0.0025 | 0.0049 | 0.0100 | EQUITIES | | |
| USD/JPY | 106.57 | -0.04 | -0.11 | -0.22 | -0.53 | | | Index |
| GBP/USD | 1.3951 | 0.0003 | 0.0005 | 0.0008 | 0.0018 | NZX50 | | 12,227 |
| EUR/GBP | 0.8652 | 0.0005 | 0.0014 | 0.0030 | 0.0060 | ASX200 | | 6,673 |
| | | | | | | Dow Jones | | 30,932 |
| | | | | | | S&P 500 | | 3,811 |
| | | | | | | FTSE100 | | 6,483 |
| | | | | | | DAX 30 | | 13,786 |
| | | | | | | Nikkei | | 28,966 |
| | | | | | | | | |
| | | | | | | COMMODITIES | | |
| | | | | | | | | USD |
| | | | | | | Dubai Light | | 63.06 |
| | | | | | | Brent Crude | | 64.42 |
| | | | | | | Gold | | 1,733.19 |
| | | | | | | Silver | | 26.65 |
| | | | | | | CRB Index | | 202.37 |

| 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 | 0.33% | 0.29% | 0.05% | 0.01% |
| FRA 90d in 3mths | 0.32% | 0.29% | 0.09% | 0.04% |
| FRA 180d in 6mths | 0.39% | 0.36% | 0.17% | 0.13% |
| 1 year swap* | 0.34% | 0.32% | 0.09% | 0.08% |
| 2 year swap* | 0.49% | 0.46% | 0.18% | 0.17% |
| 3 year swap* | 0.73% | 0.70% | 0.36% | 0.34% |
| 5 year swap* | 1.21% | 1.19% | 0.93% | 0.89% |
| 10 year swap* | 2.00% | 1.98% | 1.77% | 1.74% |
| 10 year Govt bond | | 1.89% | | 1.92% |

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

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