

Market Alert

Friday 2 July 2021

CURRENCIES	Spot	6mths
NZD/USD	0.6965	-0.0006
NZD/AUD	0.9330	-0.0016
NZD/JPY	77.70	-0.23
NZD/EUR	0.5879	-0.0029
NZD/GBP	0.5063	-0.0007
NZD/CNH	4.5092	0.0538
AUD/USD	0.7465	0.0006
AUD/EUR	0.6301	-0.0020
EUR/USD	1.1846	0.0049
USD/CNH	6.4745	0.0827
GBP/USD	1.3757	0.0009
EUR/GBP	0.8611	0.0030

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.10%
90 day bills	0.36%	0.03%
2 year swap	0.79%	0.27%
10 year Govt	1.89%	1.52%

The data's good

Ahead of tonight's non-farms release, the US data was positive. ISM manufacturing PMI continued to expand at a solid, yet slightly slower pace in June. Printing 60.6, below the 61.0 forecast and May's 61.2. Meanwhile initial claims dropped to a new pandemic low of 364,000 to be back below the 400,000 level for the first time in three weeks and slightly better than market expectations of 390,000.

It was a similar story with the Chinese Caixin manufacturing PMI index for June, which printed 51.3. This was its 14th

month of expansion, but came in below the forecast of 51.8 and hit a 3 month low as exports stagnated.

So, while the US ISM report suggested economic growth may be peaking, inflationary pressures are continuing to build, and with the Fed starting to show less tolerance on inflation, these price pressures could translate into a more hawkish rhetoric going forward. This saw the yield curve flatten as the Treasury bond eased to 1.47%, while the US dollar continued its recovery which saw the NZD and AUD continue to grind lower. Equities also trended higher as did oil.

In the 'central bank speakers' corner, Philly Fed president, Patrick Harker, announced "I am in the camp of starting the tapering process," while ECB policy maker, Jens Weidmann, outlined his thoughts stating he "backs the symmetric inflation goal at 2% over the medium-term, (although I am) sceptical about tolerating inflation overshooting and average inflation targeting. ECB should communicate it will raise rates once price stability requires it." Meanwhile, Italian Prime Minister and ex-ECB President, Mario Draghi, chimed in with "Euro area inflation remains low, accommodative monetary policy is necessary."

Antipodean corner

One of the local banks have been pondering whether the RBNZ will

hike rates earlier than most market participants expect as "we're already seeing risks that OCR hikes might be needed even sooner than our February 2022 expectation. The RBNZ continues to highlight their 'least regrets' strategy. That's defensible, but there's a growing risk that the biggest regret could soon become waiting too long to hike."

It is a different story in Australia where a panel of 23 economists have a dour outlook as they "expect average year economic growth to slide from 4.0% this financial year to just 2.2% by 2024-25. We forecast weaker business investment with lower household spending, but higher wage growth and lower unemployment." In regard to the AUD "the panel expects the exchange rate to stay where it is, at around 76 US cents, noting that much will depend on the iron ore price and the strength of the US economy."

Australia produced another huge trade surplus, this time at AUD9.7 billion for May, as exports jumped 6.0% while imports grew at 3.0%. Australian PMIs for June also increased to 63.2 from 61.8, while NZ building permits in May fell 2.8% following on from April's 4.8% gain.

The NZ government's books for the 11 months to 31 May are in a good position with the corporate and personal tax take up 13.7% and 7.6% against forecasts.



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Daily Rates

Friday 2 July 2021

FX	Spot	FECs (mid)				Spot Mid	
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...
NZ TWI	73.75					CAD	0.8665
NZD/USD	0.6965	0.0000	-0.0002	-0.0006	-0.0022	CHF	0.6448
NZD/AUD	0.9330	-0.0002	-0.0006	-0.0016	-0.0038	CNY	4.5158
NZD/JPY	77.70	-0.03	-0.08	-0.23	-0.57	DKK	4.3719
NZD/EUR	0.5879	-0.0004	-0.0013	-0.0029	-0.0065	FJD	1.4524
NZD/GBP	0.5063	-0.0001	-0.0002	-0.0007	-0.0019	HKD	5.4083
						KRW	788.92
AU TWI	62.50					MYR	2.9034
AUD/USD	0.7465	0.0001	0.0003	0.0006	0.0008	NOK	6.0090
AUD/NZD	1.0718	0.0002	0.0007	0.0018	0.0044	SEK	5.9751
AUD/JPY	83.29	-0.01	-0.03	-0.10	-0.27	SGD	0.9395
AUD/EUR	0.6301	-0.0003	-0.0009	-0.0020	-0.0044	TWD	19.48
AUD/GBP	0.5426	0.0000	0.0001	0.0001	0.0001	ZAR	10.0742
							10.7976
USD Index	92.58						
EUR/USD	1.1846	0.0007	0.0022	0.0049	0.0094	EQUITIES	
USD/JPY	111.58	-0.03	-0.09	-0.24	-0.47		Index
GBP/USD	1.3757	0.0001	0.0003	0.0009	0.0010	NZX50	12,684
EUR/GBP	0.8611	0.0005	0.0014	0.0030	0.0062	ASX200	7,266
						Dow Jones	34,634
						S&P 500	4,316
						FTSE100	7,125
						DAX 30	15,604
						Nikkei	28,707
						COMMODITIES	
							USD
						Dubai Light	73.72
						Brent Crude	75.52
						Gold	1,775.31
						Silver	26.02
						CRB Index	228.04

INTEREST RATES	New Zealand		Australia	
	Borrow	Invest	Borrow	Invest
30 day bank bills	0.29%	0.25%	0.00%	0.02%
90 day bank bills	0.38%	0.34%	0.05%	0.01%
FRA 90d in 3mths	0.43%	0.40%	0.07%	0.04%
FRA 180d in 6mths	0.66%	0.63%	0.14%	0.13%
1 year swap	0.52%	0.50%	0.09%	0.07%
2 year swap	0.80%	0.78%	0.28%	0.26%
3 year swap	1.03%	1.01%	0.49%	0.47%
5 year swap	1.38%	1.36%	0.93%	0.85%
10 year swap	1.89%	1.87%	1.56%	1.55%
10 year Govt bond		1.87%		1.52%

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