

Market Alert

Wednesday 7 July 2021

CURRENCIES	Spot	6mths
NZD/USD	0.7012	-0.0008
NZD/AUD	0.9355	-0.0018
NZD/JPY	77.57	-0.25
NZD/EUR	0.5930	-0.0031
NZD/GBP	0.5080	-0.0009
NZD/CNH	4.5424	0.0544
AUD/USD	0.7496	0.0007
AUD/EUR	0.6339	-0.0020
EUR/USD	1.1825	0.0049
USD/CNH	6.4780	0.0846
GBP/USD	1.3804	0.0009
EUR/GBP	0.8566	0.0030

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.10%
90 day bills	0.35%	0.02%
2 year swap	0.89%	0.27%
10 year Govt	1.83%	1.47%

Currencies and bond yields

It's been quite a 24 hours for currencies and bond yields which has seen the NZD/USD range between 0.6988 and 0.7106, the AUD/USD track between 0.7480 and 0.7600, and the US 10 year Treasury yield fall to 1.36%.

The initial rally was driven by the New Zealand QSBO report which saw two of the local banks bring forward their rate hike forecasts, and while the RBA wasn't particularly bullish, the trend was in place as the AUD tracked the NZD higher.

Breaking it down further, the NZIER Quarterly Survey of Business Opinion (QSBO) saw headline business confidence increase to 7% from Q1's -13%. A net 10% of businesses expect an improvement in the economic outlook on a seasonally adjusted basis, which is up from the net 8% of businesses who expected a deterioration in Q1. Firms' own trading activity showed a net 26% increase in demand in the June quarter.

Immediately after the release of the report, two of the local banks brought forward their first RBNZ rate hikes to November this year, with a third suggesting November may be its preferred option earlier in the week. The futures markets is now pricing in an 88.0% chance of a rate hike in November.

The RBA left its cash rate and its 3 year bond yield target at 0.10%. There were no real surprises, but in extending its bond purchasing program from its proposed September expiry at a rate of AUD4 billion a week, and in maintaining the April 2024 bond, the RBA essentially underlined the fragility of the Australian recovery in amongst the current COVID-19 lockdowns. The RBA will re-evaluate the QE extension in November, although they did acknowledge an improving economic environment.

In the Q&A afterwards, RBA Governor, Philip Lowe, dusted off the old classic "do not expect cash rate to be increased until

2024 at the earliest. We need much more positive wage growth (than) forecast to expect rate hikes in 2023. That does not seem likely."

This ultimately had both the NZD and the AUD on their session highs going into the European open, but then the mood soured. European stocks fell on weaker data and COVID-19 concerns ahead of the summer holiday season. German investor morale dropped 16.5 points from the previous month to 63.3, while factory orders fell -3.7% in May against a forecast of +0.9% and construction activity remained in contractionary territory. Eurozone retail sales, however, surged 4.6% in May, beating forecasts.

In the US, a weaker than expected Services PMI survey raised concerns about the pace of global economic recovery given that the index contracted to 60.1 in June from the all time high of 64.0 in May, which saw US markets ease and the Treasury bond plunge to its lows. In amongst this, the dollar edged higher ahead of the release of tomorrow's Fed minutes.

At the peripheral

S&P have raised their forecast for Chinese growth in 2021 to 8.3%.

The World Gold Council has let slip that 1 in 5 central banks plan to increase their gold reserves over the next year!

The Russian sovereign wealth fund has cut its USD holdings to zero.



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Daily Rates

Wednesday 7 July 2021

FX	Spot	FECs (mid)				Spot Mid	
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...
NZ TWI	74.17					CAD	0.8737
NZD/USD	0.7012	0.0000	-0.0003	-0.0008	-0.0028	CHF	0.6483
NZD/AUD	0.9355	-0.0002	-0.0007	-0.0018	-0.0046	CNY	4.5371
NZD/JPY	77.57	-0.03	-0.09	-0.25	-0.62	DKK	4.4094
NZD/EUR	0.5930	-0.0004	-0.0013	-0.0031	-0.0070	FJD	1.4475
NZD/GBP	0.5080	-0.0001	-0.0003	-0.0009	-0.0024	HKD	5.4468
						KRW	792.15
AU TWI	63.20					MYR	2.9418
AUD/USD	0.7496	0.0001	0.0003	0.0007	0.0007	NOK	6.1017
AUD/NZD	1.0689	0.0002	0.0008	0.0021	0.0053	SEK	6.0255
AUD/JPY	82.92	-0.01	-0.03	-0.10	-0.26	SGD	0.9447
AUD/EUR	0.6339	-0.0003	-0.0009	-0.0020	-0.0044	TWD	19.77
AUD/GBP	0.5430	0.0000	0.0001	0.0001	0.0001	ZAR	10.0752
							10.7699
USD Index	92.52						
EUR/USD	1.1825	0.0008	0.0022	0.0049	0.0093	EQUITIES	
USD/JPY	110.63	-0.03	-0.08	-0.23	-0.45		Index
GBP/USD	1.3804	0.0001	0.0003	0.0009	0.0010	NZX50	12,759
EUR/GBP	0.8566	0.0005	0.0014	0.0030	0.0061	ASX200	7,262
						Dow Jones	34,581
						S&P 500	4,344
						FTSE100	7,101
						DAX 30	15,511
						Nikkei	28,643
						COMMODITIES	
							USD
						Dubai Light	76.00
						Brent Crude	74.86
						Gold	1,796.95
						Silver	26.16
						CRB Index	223.44

INTEREST RATES	New Zealand		Australia	
	Borrow	Invest	Borrow	Invest
30 day bank bills	0.29%	0.25%	0.02%	0.02%
90 day bank bills	0.37%	0.33%	0.04%	0.00%
FRA 90d in 3mths	0.51%	0.48%	0.07%	0.04%
FRA 180d in 6mths	0.77%	0.74%	0.14%	0.13%
1 year swap	0.58%	0.56%	0.09%	0.07%
2 year swap	0.90%	0.88%	0.28%	0.26%
3 year swap	1.11%	1.09%	0.48%	0.47%
5 year swap	1.40%	1.38%	0.87%	0.78%
10 year swap	1.85%	1.83%	1.48%	1.46%
10 year Govt bond		1.81%		1.47%

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