

Market Alert

Friday 9 July 2021

CURRENCIES	Spot	6mths
NZD/USD	0.6945	-0.0007
NZD/AUD	0.9349	-0.0017
NZD/JPY	76.24	-0.24
NZD/EUR	0.5863	-0.0030
NZD/GBP	0.5039	-0.0008
NZD/CNH	4.5099	0.0544
AUD/USD	0.7429	0.0006
AUD/EUR	0.6272	-0.0020
EUR/USD	1.1845	0.0049
USD/CNH	6.4937	0.0848
GBP/USD	1.3783	0.0009
EUR/GBP	0.8594	0.0030

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.10%
90 day bills	0.35%	0.03%
2 year swap	0.86%	0.24%
10 year Govt	1.68%	1.32%

It would appear it's coming home!

The ECB finally announced the conclusion of its strategic review, which pointed to a more expansionary bias for its monetary policy as the Governing Council raised its inflation target to 2.0% from "below, but close to 2.0%."

After years of undershooting the target and predicting an acceleration of inflation that never materialised, the Governing Council will now wait until it sees evidence of higher inflation before starting to withdraw stimulus, rather than purely relying on the staff economist's medium-term forecasts.

However, when one considers that the ECB's CPI forecasts are currently at 1.9% in 2021, before slumping to 1.5% and 1.4% in 2022 and 2023, one should ask the question, is a 2.0% inflation target really relevant? Well, we suppose that given the Council also reiterated that undershooting the target warrants a reaction as forceful as overshooting it, but somehow, targeting 2.0% still seems optimistic to me!

In the US, initial jobless claims increased 2,000 to 373,000, even as labour market conditions are set to improve, during Autumn. This was against expectations of a 14,000 drop.

In China, the State Council has raised the possibility of an "RRR cut at the appropriate time to increase financial support for the real economy," with the suggestion it will happen in September. This has seen the yield differential between Chinese and US bonds widen to a 4 month high, which may see the yuan start to appreciate.

In Australia, RBA Governor, Philip Lowe, followed up on Tuesday's RBA meeting with, "QE is likely to be needed in future business cycles, but there are limits, central banks cannot keep buying assets. Fiscal policy will need to play a bigger role in future cycles. (The RBA is) not considering negative rates and does not see a convincing case for a change to the CPI target." He then moved on to inflation stating "I have not considered whether to let inflation run

above 2.0-3.0% target range, (as) it will take a long time to get wages above 3.0%. We will not hike rates to choke off housing price rises, (although) the Banks' modest reduction in QE and purchases reflects economic progress."

Goldman Sachs believe the probability that the first Fed hike will come before 2024 "is still only modestly above 50.0%. Our forecasts for both growth and inflation in 2022-2023 are already below the FOMC median."

According to the World Bank, international food prices are set to rise 12.0% this year, for the fastest annual increase since 2011.

Watching the price action

Overnight, equity markets took a beating on the poor data and COVID-19 concerns with European indexes off 1.50%-2.0% while US markets eased 0.70-1.0%. In a similar manner, bond yields were also under pressure with the US 10 year trading as low as 1.25% before recovering to 1.28%, its lowest yield since February.

As a comparison, the bund is at -0.31%, while the NZ and Australian yields are at 1.69% and 1.33%. Interestingly, the Euro recovered to close above the psychological 1.18 level, although the NZD and AUD are just above their overnight lows!



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Daily Rates

Friday 9 July 2021

FX	Spot	FECs (mid)				Spot Mid	
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...
NZ TWI	73.67					CAD	0.8707
NZD/USD	0.6945	-0.0001	-0.0002	-0.0007	-0.0027	CHF	0.6355
NZD/AUD	0.9349	-0.0002	-0.0007	-0.0017	-0.0045	CNY	4.5132
NZD/JPY	76.24	-0.03	-0.09	-0.24	-0.61	DKK	4.3603
NZD/EUR	0.5863	-0.0004	-0.0013	-0.0030	-0.0068	FJD	1.4405
NZD/GBP	0.5039	-0.0001	-0.0003	-0.0008	-0.0023	HKD	5.3948
						KRW	795.07
AU TWI	62.40					MYR	2.9143
AUD/USD	0.7429	0.0001	0.0003	0.0006	0.0007	NOK	6.1049
AUD/NZD	1.0696	0.0002	0.0008	0.0020	0.0051	SEK	5.9700
AUD/JPY	81.55	-0.01	-0.03	-0.10	-0.26	SGD	0.9396
AUD/EUR	0.6272	-0.0003	-0.0009	-0.0020	-0.0043	TWD	19.52
AUD/GBP	0.5390	0.0000	0.0001	0.0001	0.0002	ZAR	9.9498
							10.6426
USD Index	92.39						
EUR/USD	1.1845	0.0007	0.0022	0.0049	0.0094	EQUITIES	
USD/JPY	109.78	-0.03	-0.09	-0.24	-0.46		Index
GBP/USD	1.3783	0.0001	0.0003	0.0009	0.0009	NZX50	12,753
EUR/GBP	0.8594	0.0005	0.0014	0.0030	0.0063	ASX200	7,341
						Dow Jones	34,422
						S&P 500	4,313
						FTSE100	7,031
						DAX 30	15,421
						Nikkei	28,118
						COMMODITIES	
							USD
						Dubai Light	71.26
						Brent Crude	74.27
						Gold	1,803.28
						Silver	25.94
						CRB Index	222.70

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%	0.05%	0.01%
FRA 90d in 3mths	0.50%	0.47%	0.06%	0.03%
FRA 180d in 6mths	0.76%	0.73%	0.13%	0.11%
1 year swap	0.59%	0.57%	0.08%	0.06%
2 year swap	0.87%	0.85%	0.25%	0.23%
3 year swap	1.07%	1.05%	0.43%	0.42%
5 year swap	1.35%	1.33%	0.80%	0.73%
10 year swap	1.75%	1.73%	1.42%	1.40%
10 year Govt bond		1.66%		1.32%

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