

Market Alert

Thursday 25 November 2021

CURRENCIES	Spot	6mths
NZD/USD	0.6861	-0.0026
NZD/AUD	0.9543	-0.0043
NZD/JPY	79.22	-0.50
NZD/EUR	0.6130	-0.0053
NZD/GBP	0.5151	-0.0020
NZD/CNH	4.3891	0.0406
AUD/USD	0.7190	0.0005
AUD/EUR	0.6423	-0.0026
EUR/USD	1.1193	0.0054
USD/CNH	6.3977	0.0839
GBP/USD	1.3322	-0.0001
EUR/GBP	0.8402	0.0041

INT RATES	NZ	Australia
OCR/Cash	0.75%	0.10%
90 day bills	0.81%	0.05%
2 year swap	2.22%	1.00%
10 year Govt	2.55%	1.86%

The RBNZ plays the long game

In lifting the OCR 25 bps to 0.75%, the RBNZ statement was both balanced and thoughtful, in fact, the RBNZ played the whole innings with a straight bat, but that was before the Q&A session when the sparks definitely flew as the journalists took the Governor to task.

Perhaps, not too surprisingly, Mr Orr confirmed the committee considered a 50 basis point hike but stated that by making "slow steady changes," it rightly gave the RBNZ more options as "we're in a good space to take our time."

On inflation, Mr Orr confirmed "The RBNZ can't influence tradable inflation which makes up about half of the NZ CPI basket so it's the other half that the central bank needs to target," before he then touched on real wage growth, which is lagging CPI, and that he sees as flat, if not actually declining. The RBNZ is projecting a more aggressive path for monetary policy over the year ahead, given they are concerned the tight labour market could see temporary inflation morph into an embedded wage driven inflation cycle with the committee now forecasting the cash rate will reach 2.5% by 2023 year.

In terms of the actual statement, it was interesting to note it "acknowledged the pace of global economic growth has ebbed," while the old favourite, "central banks globally face the challenge of distinguishing between transitory price increases and underlying sustained inflation pressures," was also touched upon. Furthermore, "The Committee discussed the Reserve Bank's assessment that the level of house prices is unsustainable. Members noted that higher mortgage rates, continued strong building, tighter lending rules and the changes in tax settings should all act to moderate house prices over the medium term," while, "Headline CPI inflation is expected to increase above 5.0% in the near term before returning towards the 2.0% midpoint over the next 2 years" hence, the slower, steadier hiking cycle.

The financial markets initially took the news in its stride although the bulls eventually

felt the pain as the NZD/USD fell below the 0.6900 level to be at 0.6860 this morning, and while the NZD also fell on the other crosses, it remains elevated.

Swaps rates also fell between 15 and 7 points as the curve steepened on the slower, more protracted hiking cycle.

Apart from that, the USD outperformed its peers, with the EUR/USD falling below 1.12 and the AUD/USD easing below 0.7200. Equity, commodity, and bond markets were broadly unchanged ahead of the Thanksgiving holiday, with the T-bond flat at 1.65%.

The National Party's shenanigans

The US recovery continues to accelerate as consumers ramped up spending, businesses stepping up investment and jobless claims fell towards historic lows. US personal spending jumped 1.3% in October following September's 0.6% rise, individual PMIs saw manufacturing flatline at 59.1, services contract to 57.0, and the composite print at 56.5, while initial claims dropped to 199k last week, which was well below market expectations of 260k.

The German IFO expectations were slightly lower than expected at 94.2, while the business climate was at 96.5.

While these numbers should be heavily impacted by the lockdowns, Australian Q3 construction only fell 0.3% against an expected 3.1% fall.



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Daily Rates

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FX	Spot	FECs (mid)				Spot Mid	
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...
NZ TWI	73.87					CAD	0.8691 0.9108
NZD/USD	0.6861	-0.0003	-0.0010	-0.0026	-0.0077	CHF	0.6410 0.6717
NZD/AUD	0.9543	-0.0005	-0.0019	-0.0043	-0.0109	CNY	4.3855 4.5958
NZD/JPY	79.22	-0.05	-0.22	-0.50	-1.42	DKK	4.5580 4.7765
NZD/EUR	0.6130	-0.0006	-0.0025	-0.0053	-0.0133	FJD	1.4588 1.5287
NZD/GBP	0.5151	-0.0003	-0.0010	-0.0020	-0.0047	HKD	5.3504 5.6069
						KRW	813.93 852.95
AU TWI	60.90					MYR	2.9117 3.0513
AUD/USD	0.7190	0.0001	0.0004	0.0005	0.0001	NOK	6.1621 6.4575
AUD/NZD	1.0479	0.0006	0.0020	0.0047	0.0121	SEK	6.2658 6.5662
AUD/JPY	83.02	-0.01	-0.07	-0.15	-0.55	SGD	0.9392 0.9842
AUD/EUR	0.6423	-0.0003	-0.0014	-0.0026	-0.0067	TWD	19.18 20.10
AUD/GBP	0.5397	0.0000	0.0000	0.0004	0.0012	ZAR	10.9188 11.4423
USD Index	96.91					EQUITIES	
EUR/USD	1.1193	0.0007	0.0031	0.0054	0.0119		Index
USD/JPY	115.48	-0.02	-0.16	-0.29	-0.78	NZX50	12,767
GBP/USD	1.3322	0.0001	0.0008	-0.0001	-0.0028	ASX200	7,399
EUR/GBP	0.8402	0.0005	0.0018	0.0041	0.0107	Dow Jones	35,763
						S&P 500	4,694
						FTSE100	7,286
						DAX 30	15,878
						Nikkei	29,303
INTEREST RATES		New Zealand		Australia		COMMODITIES	
		Borrow	Invest	Borrow	Invest		USD
30 day bank bills		0.80%	0.77%	0.01%	0.03%	Dubai Light	80.94
90 day bank bills		0.83%	0.79%	0.07%	0.03%	Brent Crude	82.14
FRA 90d in 3mths		1.36%	1.33%	0.15%	0.12%	Gold	1,783.83
FRA 180d in 6mths		2.16%	2.13%	0.60%	0.58%	Silver	23.47
1 year swap		1.64%	1.61%	0.33%	0.32%	CRB Index	253.13
2 year swap		2.23%	2.21%	1.01%	0.99%		NZD
3 year swap		2.51%	2.49%	1.39%	1.37%	NZ Carbon	64.90
5 year swap		2.70%	2.68%	1.76%	1.69%		
10 year swap		2.82%	2.80%	2.15%	2.14%		
10 year Govt bond			2.53%		1.86%		

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