

# Market Alert

Tuesday 11 July 2023

CURRENCIES	Spot	6mths
NZD/USD	0.6212	-0.0005
NZD/AUD	0.9302	-0.0058
NZD/JPY	87.77	-2.67
NZD/EUR	0.5648	-0.0059
NZD/GBP	0.4829	-0.0001
NZD/CNH	4.4906	-0.0784
AUD/USD	0.6676	0.0035
AUD/EUR	0.6069	-0.0027
EUR/USD	1.0996	0.0105
USD/CNH	7.2301	-0.1209
GBP/USD	1.2860	-0.0012
EUR/GBP	0.8549	0.0087

  

INT RATES	NZ	Australia
OCR/Cash	5.50%	4.10%
90 day bills	5.73%	4.36%
2 year swap	5.71%	4.56%
10 year Govt	4.97%	4.35%

## This won't be good ... China on brink of consumer deflation!

Markets started the week on a cautious footing as the threat of a deflationary spiral in China gained momentum following their weak CPI and PPI releases. Both prints highlighted weakening domestic demand with June CPI falling -0.2% on the month, and from 0.2% to 0.0% on the year, while PPI fell -0.8% on the month, which produced a -5.0% contraction on the year, which was below May's -4.6%. Furthermore, the authorities, in yet another attempt to provide support to the local property market, announced they'll extend measures to support the local property market through to 2024 including the postponement of loan repayments by up to 12-months.

Against this, there was some positivity in the US releases after consumer inflation expectations for the year ahead fell for a third consecutive month, to 3.8% in June from May's 4.1%, to record its lowest projection since April 2021. In the other US releases, used car prices fell -4.2% in June, wholesale inventories were unchanged in May, while total consumer credit rose by USD7.24bn in May, well below market forecasts at USD20.25bn.

With equity and commodity markets broadly flat, the Chinese deflation report firmly placed Thursday's US CPI release in the crosshairs. Ahead of this, there was some squaring of treasury short sold positions, with profit talking seeing the yield in the 2 and 10-years ease 6bps and 4bps to 4.87% and 4.00%, while the USD-index continued Friday's trend falling -0.3% which saw the NZD and AUD make modest gains.

## The Central Bank gossip corner!

The Fed's Loretta Mester announced, "The economy would be better off if the Fed Funds rate were to go higher. My outlook for terminal fed funds rate matches, or just above, June fed median forecast," while colleague Mary Daly added, "We are likely to need a couple more rate hikes this year. We may end up doing less, or more, depending on the data given there are longer lags than we assumed." Meanwhile, in Europe, the ECB's Joachim Nagel added, "Euro-area inflation remains too high. GDP may slow

but I'm convinced a hard landing can be avoided," while BoE Governor Bailey confirmed, "Inflation is unacceptably high. Some tightening is still to come through the policy pipeline."

The NZIER Shadow Board 'recommends' the RBNZ leaves the OCR unchanged tomorrow, which is nice considering house prices continued to decline falling, on average, -1.8% in the last 3-months.

The RBA's Assistant Governor (Economics), Luci Ellis, is jumping to the private sector replacing Bill Evans as head of Economics at Westpac.

MUFG expect no policy tweak from the BoJ until the October meeting, "It's kind of unclear what the BoJ is waiting for before they decide to tweak YCC (Yield Curve Control). It seems the most important factor is the BoJ's confidence in the future path for prices, but it's vague. We can't quantify their confidence level. There's no scale."

Despite China announcing it 'agrees' to keep high-level exchanges open with the US after Treasury Secretary Janet Yellen's visit, following the US's chip ban China is continuing its retaliatory threat to restrict the export of metals used in high performance chips. If China were to withdraw its supply from global markets, Goldman's projects it would cost the West over USD25bn to match China's supply of rare earths given that at present China accounts for 90% of the global refined output of rare earths.



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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	71.90					CAD	0.8247	0.8865
NZD/USD	0.6212	-0.0001	-0.0002	-0.0005	-0.0016	CHF	0.5501	0.5913
NZD/AUD	0.9302	-0.0011	-0.0030	-0.0058	-0.0101	CNY	4.4882	4.8241
NZD/JPY	87.77	-0.45	-1.29	-2.67	-5.28	DKK	4.2089	4.5233
NZD/EUR	0.5648	-0.0010	-0.0028	-0.0059	-0.0116	FJD	1.3590	1.4605
NZD/GBP	0.4829	-0.0002	-0.0003	-0.0001	0.0010	HKD	4.8624	5.2256
						KRW	807.25	867.55
AU TWI	61.70					MYR	2.8991	3.1157
AUD/USD	0.6676	0.0007	0.0019	0.0035	0.0046	NOK	6.5153	7.0019
AUD/NZD	1.0746	0.0012	0.0034	0.0064	0.0106	SEK	6.6822	7.1813
AUD/JPY	94.34	-0.38	-1.09	-2.31	-4.71	SGD	0.8353	0.8977
AUD/EUR	0.6069	-0.0004	-0.0011	-0.0027	-0.0060	TWD	19.47	20.92
AUD/GBP	0.5190	0.0004	0.0014	0.0031	0.0068	ZAR	11.67	12.54
USD Index	101.97					<b>EQUITIES</b>		
EUR/USD	1.0996	0.0018	0.0050	0.0105	0.0186		<b>Index</b>	
USD/JPY	141.29	-0.71	-2.02	-4.18	-8.04	NZX50	11,913	
GBP/USD	1.2860	0.0002	0.0000	-0.0012	-0.0074	ASX200	7,004	
EUR/GBP	0.8549	0.0012	0.0037	0.0087	0.0194	Dow Jones	33,928	
						S&P 500	4,404	
<b>INTEREST RATES</b>			<b>New Zealand</b>		<b>Australia</b>	FTSE100	7,274	
			<b>Mid</b>		<b>Mid</b>	DAX 30	15,673	
30 day bank bills			5.65%		4.13%	Nikkei	32,190	
90 day bank bills			5.73%		4.36%	<b>COMMODITIES</b>		
1 year swap			5.93%		4.60%		<b>USD</b>	
2 year swap			5.71%		4.58%	Brent Crude	77.86	
3 year swap			5.40%		4.47%	Gold	1,925.75	
5 year swap			5.04%		4.55%	Silver	23.14	
10 year swap			4.84%		4.66%	Iron Ore	110.54	
3 year Govt bond			5.27%		4.28%	CRB Index	294.45	
5 year Govt bond			5.02%		4.24%		<b>NZD</b>	
10 year Govt bond			4.97%		4.35%	NZ Carbon	39.00	

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