

Market Alert

Tuesday 08 October 2024

CURRENCIES	Spot	6mths
NZD/USD	0.6115	0.0006
NZD/AUD	0.9063	0.0000
NZD/JPY	90.590	-1.96
NZD/EUR	0.5576	-0.0038
NZD/GBP	0.4677	0.0007
NZD/CNH	4.3260	-0.0520
AUD/USD	0.6747	0.0006
AUD/EUR	0.6152	-0.0043
EUR/USD	1.0967	0.0086
USD/CNH	7.0695	-0.0922
GBP/USD	1.3074	-0.0007
EUR/GBP	0.8388	0.0070

INT RATES	NZ	Australia
OCR/Cash	5.25%	4.35%
90 day bills	4.78%	4.46%
2 year swap	3.60%	3.92%
10 year Govt	4.43%	4.29%

As we approach the pointy end

...

... ahead of tomorrow's RBNZ meeting, the 25bps or 50bps discussion is now officially redundant. Mr Orr has already made his mind up ... we just need to wait for the official confirmation. My opinion, for what its worth is ... I know what he should do, but will he cut 50bps? The Fed gave the RBNZ the 'tick' to go faster earlier, and the local economy definitely needs it, but the man sitting at the top of the table has his own opinion ... and that's what we'll be getting and I suspect there will be some words of warning in the guidance!

It would appear the NZIER Shadow Board were equally split over what the central bank will do with half of the members calling for a 50bps cut, citing

concerns about the persistent weakness and increasing excess capacity within the economy, while the remainder favour a more cautious approach, recommending a 25bps reduction due to lingering upside risks in non-tradable inflation.

But to some extent ... does it matter? The issue is that most companies fund themselves off the interest rate curve, not the OCR, and the interest rate curve is continuing to grind higher. The 10-year treasury yield is above the 4.00% level, having firmed 6bps to 4.02%, which is incredible when you think it was yielding 3.60% the day before the Fed hike. The 2-years also rallied, firming 7bps to yield 4.00%. These moves found further support when Fed member Neel Kashkari suggested a higher neutral rate stating, "I now see neutral fed funds rate as close to 3.00%." These moves have also been impacting the NZ curve with the lowest point, the 3-years, having previously struggled to break the 3.40% level, closing last night at 3.54%, and will likely trade higher this morning on the open amid a curve that has steepened a lot recently.

These higher yields have also supported the USD, which had a further leg up overnight with the NZD and AUD the worse performers falling -0.7%. The one currency that bucked the trend was the JPY, which traded above the 149.00 level vs. the USD before Japan's 'top currency diplomat' Atsushi Mimura, announced he would "monitor the JPY, including speculative movements", while Finance Minister Katsunobu Kato added, "a weak yen has both merits and demerits. There

is a need to monitor how excessive forex movements will affect corporate activities and households." This was enough for the USD/JPY to pull back to the 148.00 level, with the NZD/JPY at 90.50.

US equity markets sold off, falling -1.0% as investors re-positioned themselves ahead of a far more 'muted' cutting cycle, although the European exchanges posted modest gains, while oil prices continued their recovery firming another 3.8% overnight to a 7-week high following last week's 9.0% gain!

Looking at the inconsequential stuff

Eurozone retail sales rose 0.2% in August follow July's flat print, which saw ECB and French central bank Governor, François Villeroy de Galhau, announce, "The ECB will probably cut interest rates on 17-October. Economic growth is weak, bringing the risk that inflation will undershoot its 2.0% target. The ECB should be back at the 'neutral' rate sometime in 2025."

UK house prices increased 4.7% in the year to September, which was the highest since November 2022.

The Melbourne Institute projects Australian inflation will print at 0.1% in the September month and at 2.6% on the year, which should please the RBA.

Finally ... a big shout out to one of my girls ... well done on getting that full driver's licence. Passing while breaking the speed limit is very impressive!



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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	70.70					CAD	0.8336	0.9200
NZD/USD	0.6115	0.0001	0.0004	0.0006	0.0019	CHF	0.5223	0.5763
NZD/AUD	0.9063	-0.0003	-0.0004	0.0000	0.0029	CNY	4.3635	4.8050
NZD/JPY	90.590	-0.40	-1.07	-1.96	-3.39	DKK	4.1562	4.5865
NZD/EUR	0.5576	-0.0007	-0.0019	-0.0038	-0.0071	FJD	1.3154	1.4516
NZD/GBP	0.4677	0.0001	0.0003	0.0007	0.0021	HKD	4.7480	5.2396
						KRW	822.95	908.15
AU TWI	62.80					MYR	2.6156	2.8864
AUD/USD	0.6747	0.0003	0.0007	0.0006	-0.0001	NOK	6.5145	7.1889
AUD/NZD	1.1032	0.0002	0.0003	-0.0003	-0.0039	SEK	6.3377	6.9939
AUD/JPY	99.93	-0.41	-1.15	-2.16	-4.06	SGD	0.7977	0.8803
AUD/EUR	0.6152	-0.0006	-0.0019	-0.0043	-0.0099	TWD	19.68	21.71
AUD/GBP	0.5160	0.0003	0.0005	0.0007	0.0007	ZAR	10.64	11.75
USD Index	102.52					EQUITIES		
EUR/USD	1.0967	0.0016	0.0044	0.0086	0.0177		Index	
USD/JPY	148.14	-0.67	-1.85	-3.34	-6.01	NZX50	12,597	
GBP/USD	1.3074	0.0000	-0.0001	-0.0007	-0.0026	ASX200	8,205	
EUR/GBP	0.8388	0.0012	0.0034	0.0070	0.0146	Dow Jones	41,905	
USD/CNY	7.0176	-0.0220	-0.0545	-0.0976	-0.1719	S&P 500	5,694	
						FTSE100	8,304	
INTEREST			New Zealand		Australia	DAX 30	19,104	
RATES			Mid		Mid	Nikkei	39,333	
30 day bank bills			4.99%		4.35%	COMMODITIES		
90 day bank bills			4.78%		4.46%		USD	
1 year swap			4.08%		4.02%	Brent Crude	81.13	
2 year swap			3.64%		3.94%	Gold	2,641.06	
3 year swap			3.54%		3.87%	Silver	31.66	
5 year swap			3.63%		4.09%	Iron Ore	108.84	
10 year swap			3.99%		4.32%	CRB Index	349.34	
3 year Govt bond			3.76%		3.85%		NZD	
5 year Govt bond			3.92%		3.93%	NZ Carbon	62.90	
10 year Govt bond			4.43%		4.28%			

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