Market Alert

CURRENCIES	Spot	6mths
NZD/USD	0.5922	0.0039
NZD/AUD	0.9222	0.0028
NZD/JPY	85.585	-1.20
NZD/EUR	0.5249	-0.0031
NZD/GBP	0.4423	0.0024
NZD/CNH	4.3248	-0.0372
AUD/USD	0.6419	0.0021
AUD/EUR	0.5689	-0.0051
EUR/USD	1.1282	0.0139
USD/CNH	7.2141	-0.1091
GBP/USD	1.3385	0.0012
EUR/GBP	0.8426	0.0096

INT RATES	NZ	Australia
OCR/Cash	3.50%	3.85%
90 day bills	3.33%	3.84%
2 year swap	3.18%	3.29%
10 year Govt	4.70%	4.49%

RBA delivers a cut

As expected, the RBA cut its cash rate by 25bps yesterday to 3.85%, however comments by RBA Governor, Michelle Bullock appeared to catch markets by surprise. The markets were expecting this to be a 'hawkish cut' by the RBA, expecting it to cite ongoing strong jobs growth, and wage inflation, and the resultant inflationary pressures. However, the statement was more dovish than expected, with the RBA cutting its growth and trimmed mean inflation forecasts, with the consideration of a 50bps cut mentioned in the press conference.

Although these were only forecasts and ideas, it was enough for markets to adjust its positioning on Australia. The AUD softened after the announcement which saw the NZD/AUD climb back through the 0.9200 level, while Australian swaps pushed back towards the lows seen only a few weeks ago, before the US-China temporary trade resolution, with Australian swaps 10-20bps lower across the curve.

In a further attempt to help stimulate its economy People's Bank of China also cut its key interest rates yesterday, reducing both its 1 and 5-year Loan Prime Rates ("LPRs") by 10bps to 3.00% and 3.50% respectively. The 1-year LPR is commonly used as the benchmark for most corporate and household loans, while the 5-year is commonly used as the benchmark for mortgage rates.

Tumultuous Treasuries

US Treasury Secretary, Scott Bessent was hoped to bring some fiscal discipline to the Trump administration, as the increasing US deficit continues to be a growing concern. However, Trump is currently pushing forward his budget bill, this was initially predicated on tax cuts financed by tariffs and spending cuts in other areas such as Medicaid. Several reports are stating that Trump told Republicans not to touch Medicaid. This has caused concern for markets as it signals further deficits for the US, which could push Treasury yields higher.

Moody's US downgrade was more about aligning itself with the other rating agencies, rather than anything avant-garde. While it appears to not have had any major implications as of yet, it still has the potential to affect US markets and flow on globally. It is well known, US Treasuries are largely held by foreign entities, including large pension funds. As these funds are only allowed to hold set amounts of different credit rating, this downgrade could force these pension funds to sell US Treasuries, putting further pressure on Treasury yields and other markets, including currencies , this would be exacerbated if other ratings companies were to follow suit.

While cryptocurrencies made progress in the US after a group of Democrats dropped their opposition to Stablecoin legislation allowing the bill to pass the early Senate vote. It is still somewhat hard to believe that a government would be happy to have a prominent currency that it can't control or get direct information on.

So, what does it mean

After a few good days post trade resolution, markets have reverted back to their de-allocation of US assets theme. This saw the USD index soften further, currently sitting just above the 100.00 level, despite this softening the NZD/USD has seen little to no gain, remaining comfortably above 0.5900, while the AUD/USD is a little lower due to the dovish RBA meeting. Longer term US Treasuries were subject to similar market sentiment, with selling of US bonds pushing yields higher, the 10-year is 4bps higher at 4.48%, NZ swaps are marginally lower across the curve, likely helped by the softness in Australian Swaps. US equities were lower across the board, while oil softened and safe-haven gold had a positive session as would be expected.

Daily Rates

FX	Spot Mid	FECs (mid) 1mth	3mths	6mths	12mths		Spot Mid NZD/...	AUD/...
NZ TWI	69.00					CAD	0.8235	0.8929
NZD/USD	0.5922	0.0006	0.0019	0.0039	0.0065	CHF	0.4908	0.5325
NZD/AUD	0.9222	0.0005	0.0016	0.0028	0.0039	CNY	4.2593	4.6159
NZD/JPY	85.585	-0.22	-0.61	-1.20	-2.27	DKK	3.9134	4.2432
NZD/EUR	0.5249	-0.0005	-0.0015	-0.0031	-0.0064	FJD	1.3250	1.4367
NZD/GBP	0.4423	0.0004	0.0012	0.0024	0.0044	HKD	4.6337	5.0243
						KRW	824.06	893.52
AU TWI	59.70					MYR	2.5426	2.7570
AUD/USD	0.6419	0.0003	0.0009	0.0021	0.0040	NOK	6.0725	6.5844
AUD/NZD	1.0836	-0.0007	-0.0020	-0.0037	-0.0055	SEK	5.7097	6.1910
AUD/JPY	92.70	-0.29	-0.83	-1.60	-2.90	SGD	0.7665	0.8311
AUD/EUR	0.5689	-0.0009	-0.0026	-0.0051	-0.0098	TWD	17.83	19.34
AUD/GBP	0.4793	0.0001	0.0005	0.0011	0.0023	ZAR	10.60	11.50

	Spot Mid					EQUITIES		Index
USD Index	100.06							
EUR/USD	1.1282	0.0023	0.0068	0.0139	0.0258	NZX50		12,644
USD/JPY	144.53	-0.52	-1.50	-2.96	-5.37	ASX200		8,343
GBP/USD	1.3385	0.0002	0.0006	0.0012	0.0008	Dow Jones		42,677
EUR/GBP	0.8426	0.0016	0.0047	0.0096	0.0182	S&P 500		5,941
USD/CNY	7.2194	-0.0177	-0.0504	-0.1009	-0.2085	FTSE100		8,781
						DAX 30		24,036

INTEREST RATES	New Zealand Mid	Australia Mid		Nikkei	37,529
30 day bank bills	3.44%	3.81%		**COMMODITIES**	**USD**
90 day bank bills	3.33%	3.84%		Brent Crude	65.64
1 year swap	3.14%	3.41%		Gold	3,294.72
2 year swap	3.20%	3.30%		Silver	33.11
3 year swap	3.33%	3.35%		Iron Ore	100.00
5 year swap	3.60%	3.76%		CRB Index	364.52
10 year swap	4.13%	4.25%			
3 year Govt bond	3.61%	3.50%			**NZD**
5 year Govt bond	4.00%	3.77%		NZ Carbon	54.00
10 year Govt bond	4.70%	4.49%			

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