



Level 9, Technology One House, 86 Victoria Street, PO Box 692, Wellington
 Freefone 0800 427 722 www.forexld.co.nz

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Stronger inflation data out of the US overnight has spooked markets ahead of the Federal Reserve meeting Thursday morning NZ time. The average cost to employ someone in the US including wages and benefits rose 1.2% in the first quarter, the fastest in a year giving an annual reading of 4.2%. As the Financial Times notes, much of the Union action that swept across the US last year is still coming through in the data. United Auto Workers for instance agreed a 25% pay rise over four years with an immediate bump of 11% late last year with these contracts being updated in the first quarter. Its also interesting that the rise comes at a time when the influx of immigrants has hit all time highs, now representing 18.6% of the US work force. The increased supply of labour hasn't affected US born workers with their unemployment rate sitting at the lowest on record at 3.6%. Persistent labour costs are adding to the 'sticky' inflation theme and challenges the Federal Reserves interest rate cut forecasts for the second half of the year.

US stock markets have fallen about 1% across the board and are on track for their worst month since September. The day didn't start all that bad after European news came through that the Eurozone has stepped out of recession in the first quarter growing 0.3%. Admittedly its not much but is widely being cheered after contracting for the last six months with the largest economy Germany growing 0.2% in Q1 after sliding 0.5% in Q4 2023. The prospects for the Eurozone are brightening too with inflation coming in at 2.4% annually, bang on expectations which means an interest rate cut next month is all locked in. While there are bright posts across the bloc with the South benefitting from a tourism boom and lower energy prices helping global trade, structural issues remain, particularly in Germany where industrial production is weak thanks to higher costs and weak investment.

The US dollar is up across the board with the NZ dollar back to where we were at the start of last week at 0.5900. We get our local Labour Cost data this morning at 10.45am with expectations of a rise of 0.8% for the first quarter and 3.8% for the year. The unemployment rate is also expected to rise to 4.2% from 4% as layoffs seen in the first quarter start to feed into the data, we will bring you the update. While the unemployment data is unlikely to move markets that much, the Federal Reserve tomorrow morning will be key to the direction of the kiwi and we will stick with the signals as they are until we hear from Fed chief Jerome Powell.

Short term forecasts (next week or so)

| Currency | Spot Rate (Mid) | 24 Hour Range | | S/t trend | Trend reverses at | Importer target | Exporter target |
|----------|-----------------|---------------|--------|--------------|-------------------|-----------------|-----------------|
| NZD/AUD | 0.9095 | 0.9122 | 0.9093 | weaker NZD | 0.9240 | 0.9200 | 0.9050 |
| NZD/CAD | 0.8113 | 0.8170 | 0.8113 | weaker NZD | 0.8300 | 0.8200 | 0.8060 |
| NZD/CNY | 4.2694 | 4.3239 | 4.2692 | stronger NZD | 4.2300 | 4.3600 | 4.2700 |
| NZD/EUR | 0.5523 | 0.5578 | 0.5519 | stronger NZD | 0.5500 | 0.5620 | 0.5520 |
| NZD/GBP | 0.4717 | 0.4761 | 0.4716 | stronger NZD | 0.4700 | 0.4820 | 0.4720 |
| NZD/JPY | 93.02 | 93.64 | 92.96 | stronger NZD | 90.00 | 95.00 | 92.50 |
| NZD/SGD | 0.8047 | 0.8130 | 0.8046 | stronger NZD | 0.7950 | 0.8200 | 0.8050 |
| NZD/USD | 0.5896 | 0.5979 | 0.5895 | stronger NZD | 0.5840 | 0.6000 | 0.5880 |
| AUD/USD | 0.6483 | 0.6567 | 0.6480 | stronger AUD | 0.6350 | 0.6600 | 0.6430 |
| AUD/EUR | 0.6073 | 0.6127 | 0.6062 | stronger AUD | 0.6000 | 0.6170 | 0.6060 |
| USD/CAD | 1.3760 | 1.3765 | 1.3659 | weaker USD | 1.3850 | 1.3760 | 1.3500 |
| EUR/USD | 1.0676 | 1.0735 | 1.0674 | weaker USD | 1.0550 | 1.0800 | 1.0620 |
| GBP/USD | 1.2501 | 1.2564 | 1.2494 | weaker USD | 1.2250 | 1.2600 | 1.2380 |
| USD/JPY | 157.77 | 157.77 | 156.08 | stronger USD | 153.00 | 160.00 | 155.00 |

Snapshot of other Rates

NOK 6.5432 HKD 4.6125 WMP 3175 US10Y 4.6120 BTC 60178 Oil 82.63 Gold 2292.96

90 Day Interest Rates

USD 5.73 NZD 5.63 AUD 4.44 EUR 3.96 GBP 5.54 CHF 1.42 JPY 0.07