

Market Alert

Tuesday 22 March 2022

CURRENCIES	Spot	6mths
NZD/USD	0.6876	-0.0025
NZD/AUD	0.9305	-0.0066
NZD/JPY	82.15	-0.84
NZD/EUR	0.6241	-0.0076
NZD/GBP	0.5225	-0.0017
NZD/CNH	4.3814	0.0254
AUD/USD	0.7390	0.0026
AUD/EUR	0.6708	-0.0035
EUR/USD	1.1017	0.0095
USD/CNH	6.3722	0.0600
GBP/USD	1.3160	-0.0005
EUR/GBP	0.8371	0.0075

INT RATES	NZ	Australia
OCR/Cash	1.00%	0.10%
90 day bills	1.47%	0.17%
2 year swap	3.01%	1.86%
10 year Govt	3.15%	2.57%

Keeping his foot on the accelerator

In the first of two speeches this week, Fed Chair, Jerome Powell, stated, "We may well reach the conclusion that we need to move more quickly, and if so, we will do so. If we need to hike beyond 25 bps, we will. The Fed projections can become outdated quickly at times like these with events developing rapidly (but the) Fed's policy actions will help bring down inflation near 2% over the next three years. Action on balance sheet could come as soon as May meeting but no decision has been made."

Then, on the labour market, he added, "Ultimately if you want a strong labour market, you have to have price stability. Having a strong labour market is important and a big focus."

In other US news, the Chicago Fed national activity index edged down to 0.51 in February from January's 0.59, pointing to a slight decrease in economic growth.

Following the Chairman's remarks, investors increased the odds of a 50bps May hike to almost 65%, while the US-dollar also found some support. Positioning in the USD marginally increased over the last week, but in amongst the detail, it was interesting to note that CAD, AUD, and NZD positioning also increased with open interest in the NZD rising by 32% moving from oversold to overbought territory.

The 10-year US treasury yield surged to a 34-month high reaching 2.295%, supporting international markets with the bund at 0.47%, while the AUD yield rallied 5bps to 2.59%. Interestingly, the 5x10-year US treasury spread has now inverted.

Volatility remains alive and well in the commodity markets as well, with oil up 7.0% after the EU announced they were considering a ban on Russian imports, while wheat gained 4.5%. Equity markets were also under pressure with most bourses down 0.5% to 1.0%.

The leftover headlines

ECB president, Christine Lagarde announced "(We are) not seeing elements of stagflation" while German Bundesbank President and ECB member, Joachim Nagel, added, "The risk of tightening policy too late has increased. If bond buys end in Q3 as planned, rates could rise this year. The low inflation environment unlikely to return while the risk of second-round effects from high inflation is on the rise." Which is probably about right given that producer price inflation in Germany reached 1.4% on the month and 25.9% on the year, to set a new record high for the 3rd consecutive month. The increases were predominately driven by higher energy prices although the numbers do not include recent price changes following Russia's attack on Ukraine.

The PBoC maintain its 1-year and 5-year LPR rates at 3.7% and 4.6%, as widely expected given they didn't change their MTL rate last week. Shenzhen has lifted its COVID-19 restrictions on work and production, which is important given that it has a population of over 12 million and that Foxconn, Apple's manufacturer in China, resides in the city.

New Zealand trade deficit for February was at NZD 385 million, a huge improvement on January's NZD-1.126 billion. Imports decreased to NZD5.88 billion from NZD5.92 billion, while exports increased to NZD5.49 billion from NZD4.80 billion. On an annualised basis, the trade deficit was NZD-8.37 billion versus NZD-7.78 billion last month.



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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	74.30					CAD	0.8662	0.9310
NZD/USD	0.6876	-0.0003	-0.0011	-0.0025	-0.0053	CHF	0.6417	0.6897
NZD/AUD	0.9305	-0.0008	-0.0029	-0.0066	-0.0129	CNY	4.3730	4.7009
NZD/JPY	82.15	-0.08	-0.32	-0.84	-2.21	DKK	4.6437	4.9908
NZD/EUR	0.6241	-0.0009	-0.0032	-0.0076	-0.0179	FJD	1.4508	1.5530
NZD/GBP	0.5225	-0.0001	-0.0006	-0.0017	-0.0046	HKD	5.3808	5.7829
						KRW	838.19	900.94
AU TWI	63.00					MYR	2.8935	3.1104
AUD/USD	0.7390	0.0003	0.0010	0.0026	0.0047	NOK	6.0219	6.4721
AUD/NZD	1.0748	0.0009	0.0034	0.0076	0.0151	SEK	6.5264	7.0143
AUD/JPY	88.29	-0.02	-0.07	-0.29	-1.16	SGD	0.9337	1.0035
AUD/EUR	0.6708	-0.0004	-0.0014	-0.0035	-0.0102	TWD	19.61	21.07
AUD/GBP	0.5615	0.0003	0.0010	0.0022	0.0030	ZAR	10.2798	11.0483
USD Index	98.51					EQUITIES		
EUR/USD	1.1017	0.0011	0.0038	0.0095	0.0238		Index	
USD/JPY	119.47	-0.07	-0.27	-0.80	-2.29	NZX50	12,178	
GBP/USD	1.3160	-0.0003	-0.0005	-0.0005	0.0015	ASX200	7,279	
EUR/GBP	0.8371	0.0010	0.0032	0.0075	0.0171	Dow Jones	34,755	
						S&P 500	4,436	
INTEREST		New Zealand		Australia		FTSE100	7,442	
RATES		Mid		Mid		DAX 30	14,327	
30 day bank bills		1.15%		0.01%		Nikkei	26,827	
90 day bank bills		1.47%		0.17%		COMMODITIES		
1 year swap		2.54%		0.98%			USD	
2 year swap		3.01%		1.86%		Brent Crude	115.96	
3 year swap		3.17%		2.27%		Gold	1,934.40	
5 year swap		3.27%		2.66%		Silver	25.18	
10 year swap		3.35%		2.93%		Iron Ore	145.00	
3 year Govt bond		2.81%		1.79%		CRB Index	310.85	
5 year Govt bond		2.98%		2.25%			NZD	
10 year Govt bond		3.16%		2.57%		NZ Carbon	73.25	

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