

Market Alert

Thursday 26 May 2022

CURRENCIES	Spot	6mths
NZD/USD	0.6482	-0.0021
NZD/AUD	0.9140	-0.0047
NZD/JPY	82.51	-1.17
NZD/EUR	0.6068	-0.0085
NZD/GBP	0.5154	-0.0027
NZD/CNH	4.3483	0.0008
AUD/USD	0.7093	0.0014
AUD/EUR	0.6639	-0.0059
EUR/USD	1.0683	0.0117
USD/CNH	6.7082	0.0227
GBP/USD	1.2578	0.0026
EUR/GBP	0.8493	0.0075

INT RATES	NZ	Australia
OCR/Cash	2.00%	0.35%
90 day bills	2.29%	1.07%
2 year swap	3.73%	2.81%
10 year Govt	3.52%	3.23%

Money's too tight to mention

Well, it was when Simply Red first sung it ... and that's not going to change anytime soon after the RBNZ increased the OCR by 50bps to 2.00%. And, while this was expected, given that "It remains appropriate to continue to tighten monetary conditions at pace to maintain price stability and support maximum sustainable employment" the rhetoric, and the Governor's determination to stamp out inflation, was a lot more hawkish than the market had anticipated, as "The Committee is resolute in its commitment to ensure consumer price inflation returns to within the 1.0-3.0% target."

Simply put, the RBNZ believes that an elevated hiking cycle will rein inflation back into its band sooner, and if growth is to suffer as a consequence, then so be it! As part of the accelerated hiking cycle, the RBNZ is now projecting the OCR will peak at 3.95% versus its previous projection, in February, of 3.35%.

Within this more aggressive hiking cycle, there are concerns over both the domestic and global economic outlook, as "Heightened global economic uncertainty and higher inflation are dampening global and domestic consumer confidence. Asset prices, in particular house prices, have also declined, reflecting in part higher mortgage interest rates and increased supply of housing" which mirrors his concerns in April, and supports the call that by accelerating the hiking cycle he will have extra capacity to provide stimulus should global economic conditions deteriorate into a recession.

The minutes from the Fed's May meeting highlighted that while the US economy was "very strong, with the labour market extremely tight, inflation was very high with some contacts starting to report that higher prices were hurting sales." Fed members emphasised that "inflation risks were skewed to the upside," although a number of participants observed "that overall price pressures may no longer be worsening." Ultimately it was agreed that 50bps increases would likely be appropriate at the next couple of meetings and that by expediting the removal of policy

accommodation, it would leave the Committee well positioned to re-assess the effects of policy firming later in the year.

Post the release of the minutes, Fed member, Lael Brainard, tweeted "Inflation is our most pressing challenge. The Fed is taking strong actions that will bring inflation back down," while in Australia, RBA Assistant Governor (Economics'), Luci Ellis, warned "More rates hikes are on the way. Cannot predict where the top will be for the cash rate."

The name's Scott ... Scott Miner! And, as CIO of Guggenheim fund, he believes the Fed funds "neutral rate is probably lower than where the Fed thinks it is ... by June when the Fed funds rate is expected to be about 1.75%, any tightening beyond that would be restrictive!" He believes market participants and policymakers have underestimated the impacts of shrinking the central bank's balance sheet while simultaneously hiking rates and believe a recession can be avoided if the Fed pivots to a more accommodative stance by the end of the year.

Given the announcements, markets were relatively quiet overnight with the NZD and local swap rates holding on to their gains post the RBNZ meeting. The AUD is continuing to trade around the 0.7100 level, which saw the NZD/AUD firm to 0.9145, while the US 10 year Treasury eased to 2.74%.



BANCORP

BANCORP TREASURY SERVICES LIMITED

Barrington
TREASURY SERVICES

Barrington
ASSET CONSULTING



BANCORP

BANCORP CORPORATE FINANCE LIMITED

Daily Rates

Thursday 26 May 2022

FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	71.97					CAD	0.8305	0.9088
NZD/USD	0.6482	-0.0003	-0.0009	-0.0021	-0.0042	CHF	0.6235	0.6822
NZD/AUD	0.9140	-0.0009	-0.0026	-0.0047	-0.0066	CNY	4.3371	4.7466
NZD/JPY	82.51	-0.14	-0.50	-1.17	-2.79	DKK	4.5137	4.9385
NZD/EUR	0.6068	-0.0012	-0.0040	-0.0085	-0.0179	FJD	1.3974	1.5289
NZD/GBP	0.5154	-0.0003	-0.0012	-0.0027	-0.0064	HKD	5.0886	5.5675
						KRW	820.87	898.19
AU TWI	62.50					MYR	2.8357	3.1019
AUD/USD	0.7093	0.0003	0.0010	0.0014	0.0005	NOK	6.2086	6.7929
AUD/NZD	1.0941	0.0011	0.0032	0.0056	0.0080	SEK	6.3928	6.9940
AUD/JPY	90.28	-0.06	-0.28	-0.82	-2.44	SGD	0.8912	0.9751
AUD/EUR	0.6639	-0.0006	-0.0025	-0.0059	-0.0149	TWD	19.14	20.94
AUD/GBP	0.5639	0.0003	0.0004	0.0000	-0.0029	ZAR	10.19	11.15
USD Index	102.12					EQUITIES		
EUR/USD	1.0683	0.0015	0.0056	0.0117	0.0253		Index	
USD/JPY	127.29	-0.14	-0.58	-1.39	-3.53	NZX50	11,173	
GBP/USD	1.2578	0.0001	0.0010	0.0026	0.0074	ASX200	7,155	
EUR/GBP	0.8493	0.0012	0.0038	0.0075	0.0150	Dow Jones	31,929	
						S&P 500	3,984	
INTEREST RATES						FTSE100	7,523	
		New Zealand		Australia		DAX 30	14,008	
		Mid		Mid		Nikkei	26,678	
30 day bank bills		1.90%		0.45%		COMMODITIES		
90 day bank bills		2.29%		1.07%			USD	
1 year swap		3.36%		2.33%		Brent Crude	114.32	
2 year swap		3.73%		2.81%		Gold	1,856.09	
3 year swap		3.74%		2.98%		Silver	22.05	
5 year swap		3.71%		3.27%		Iron Ore	130.00	
10 year swap		3.74%		3.50%		CRB Index	334.21	
3 year Govt bond		3.36%		2.73%			NZD	
5 year Govt bond		3.41%		2.94%		NZ Carbon	77.00	
10 year Govt bond		3.57%		3.23%				

This document has been prepared by Bancorp Treasury Services Limited ("BTSL"). Whilst all reasonable care has been taken to ensure the facts stated are accurate and the opinions given are fair and reasonable, neither BTSL nor any of its directors, officers or employees shall in any way be responsible for the contents. No liability is assumed by BTSL, its directors, officers or employees for action taken or not taken on the basis of this document.



BANCORP
BANCORP TREASURY SERVICES LIMITED

Barrington
TREASURY SERVICES

Barrington
ASSET CONSULTING



BANCORP
BANCORP CORPORATE FINANCE LIMITED