

Market Alert

Thursday 5 May 2022

CURRENCIES	Spot	6mths
NZD/USD	0.6547	-0.0021
NZD/AUD	0.9025	-0.0039
NZD/JPY	84.55	-1.16
NZD/EUR	0.6174	-0.0088
NZD/GBP	0.5187	-0.0024
NZD/CNH	4.3318	0.0196
AUD/USD	0.7255	0.0008
AUD/EUR	0.6841	-0.0068
EUR/USD	1.0605	0.0119
USD/CNH	6.6161	0.0515
GBP/USD	1.2623	0.0018
EUR/GBP	0.8401	0.0083

INT RATES	NZ	Australia
OCR/Cash	1.50%	0.35%
90 day bills	2.11%	0.70%
2 year swap	4.00%	3.07%
10 year Govt	3.80%	3.54%

Sticking to the script

The FOMC played to the pre-prepared script and hiked its target Fed Funds rate by 50 basis points to a 0.75%-1.00% range in what was its second consecutive rate hike and its largest rise in borrowing costs since 2000.

The central bank indicated it will begin reducing asset holdings on its USD9 trillion balance sheet from 1 June at USD47.5 billion per month. Rising to a maximum of USD95 billion after 3 months. Both policy adjustments were in line with expectations.

In the Q&A, Jerome Powell started referencing how inflation is too high and that *"We're strongly committed to restoring price stability."* Russian and Chinese dynamics were flagged in the policy statement with both placing pressure on headline inflation, although *"our tools don't really work on supply shocks, our tools work on demand."* While the Fed needs supply-chain fixes to get inflation down, Jerome Powell emphasised there is plenty of work they can do on the demand side, which the Fed can affect unlike the supply side. He then added the Fed is *"expeditiously"* moving the policy rate towards *"neutral"* although *"a 75 bps increases are not something the committee is actively considering"* with 50 bps increases on the table at the *"next couple of meetings."* Jerome Powell also emphasised several times that the Fed is committed to reining prices in with the view that the 'neutral' rate was between 2.0%-3.0%. On the balance-sheet runoff, Mr Powell suggested it *"will have the same effect as about one rate increase a year."*

Futures markets are now anticipating a half-point rate increase at the June meeting, although earlier pricing in a 50% chance of a 0.75%-point move. Stocks initially struggled for direction after the statement but soared to session highs as the Chairman threw cold water on the prospect of 75-basis-point increases.

European markets also had a good session despite the poor German trade numbers.

Currency markets saw big moves with the USD index dropping 1.0% during the Q&A, although the AUD outperformed, rallying 2.25% to 0.7255 while the NZD gained 1.60% to 0.6550. Bond markets were a little quieter taking the move in their stride with the T-bond yield easing back 4 pips to 2.935%

In other news, New Zealand's unemployment rate held steady at its record low of 3.2% with a modest improvement in working-age population growth offset by a 0.1%-point decline in the participation rate to 70.9%. Pay growth was in line with expectations, with private-sector wages rising 0.7% from previous quarter to 3.1%. Higher than a year earlier and the quickest jump in wages since 2009.

The Reserve Bank of New Zealand ("RBNZ") also released their semi-annual *Financial Stability Report*, noting that a 'sharp' decline in house prices was possible as it raises borrowing costs aggressively to tackle inflation.

RBNZ Governor, Adrian Orr, stressed a global synchronized recession couldn't be ruled out as, *"It was a very synchronized global hit from the pandemic, so we're all coming out of that pandemic simultaneously, albeit in different ways, and we're talking global commodity prices that have been impacted through the Ukraine crisis"*

In other news, Australia, retail sales rose 1.6% in March following on from February's 1.8% gain.



BANCORP

BANCORP TREASURY SERVICES LIMITED

Barrington
TREASURY SERVICES

Barrington
ASSET CONSULTING



BANCORP

BANCORP CORPORATE FINANCE LIMITED

Daily Rates

Thursday 5 May 2022

FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	71.62					CAD	0.8343	0.9244
NZD/USD	0.6547	-0.0002	-0.0008	-0.0021	-0.0049	CHF	0.6370	0.7059
NZD/AUD	0.9025	-0.0008	-0.0022	-0.0039	-0.0054	CNY	4.3255	4.7940
NZD/JPY	84.55	-0.12	-0.46	-1.16	-2.87	DKK	4.5940	5.0902
NZD/EUR	0.6174	-0.0010	-0.0038	-0.0088	-0.0197	FJD	1.4023	1.5508
NZD/GBP	0.5187	-0.0002	-0.0009	-0.0024	-0.0064	HKD	5.1387	5.6938
						KRW	820.50	909.16
AU TWI	62.80					MYR	2.8020	3.1043
AUD/USD	0.7255	0.0004	0.0009	0.0008	-0.0003	NOK	6.0732	6.7309
AUD/NZD	1.1081	0.0010	0.0027	0.0048	0.0067	SEK	6.3867	7.0773
AUD/JPY	93.69	-0.04	-0.26	-0.88	-2.64	SGD	0.9000	0.9973
AUD/EUR	0.6841	-0.0005	-0.0024	-0.0068	-0.0176	TWD	19.24	21.31
AUD/GBP	0.5747	0.0004	0.0005	-0.0001	-0.0030	ZAR	10.12	11.21
USD Index	102.66					EQUITIES		
EUR/USD	1.0605	0.0014	0.0053	0.0119	0.0268		Index	
USD/JPY	129.13	-0.13	-0.52	-1.35	-3.52	NZX50	11,675	
GBP/USD	1.2623	0.0000	0.0005	0.0018	0.0063	ASX200	7,305	
EUR/GBP	0.8401	0.0011	0.0038	0.0083	0.0169	Dow Jones	33,129	
						S&P 500	4,304	
INTEREST RATES		New Zealand		Australia		FTSE100	7,493	
		Mid		Mid		DAX 30	13,971	
30 day bank bills		1.77%		0.19%		Nikkei	26,819	
90 day bank bills		2.11%		0.70%		COMMODITIES		
1 year swap		3.46%		2.44%			USD	
2 year swap		4.00%		3.07%		Brent Crude	110.59	
3 year swap		4.12%		3.28%		Gold	1,883.95	
5 year swap		4.14%		3.56%		Silver	23.04	
10 year swap		4.13%		3.75%		Iron Ore	142.00	
3 year Govt bond		3.62%		3.13%		CRB Index	326.60	
5 year Govt bond		3.72%		3.31%			NZD	
10 year Govt bond		3.81%		3.54%		NZ Carbon	76.20	

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