

Market Alert

Tuesday 14 June 2022

CURRENCIES	Spot	6mths
NZD/USD	0.6252	-0.0018
NZD/AUD	0.9030	-0.0033
NZD/JPY	84.04	-1.39
NZD/EUR	0.6004	-0.0094
NZD/GBP	0.5155	-0.0032
NZD/CNH	4.2417	-0.0091
AUD/USD	0.6922	0.0005
AUD/EUR	0.6646	-0.0080
EUR/USD	1.0412	0.0132
USD/CNH	6.7828	0.0072
GBP/USD	1.2124	0.0036
EUR/GBP	0.8586	0.0079

INT RATES	NZ	Australia
OCR/Cash	2.00%	0.85%
90 day bills	2.60%	1.56%
2 year swap	4.12%	3.53%
10 year Govt	4.12%	3.86%

If you thought last week was bad

Do not look at equity markets, this morning!

US and European equity markets are deeply in the red this morning with most bourses off -2.0% to -2.5%, although the S&P500 slipped into bear market territory, falling -3.8%, while the Nasdaq fell -4.5%. While there was no explicit rationale for the weakness, there is no doubt Friday's US CPI print and the weekend's financial press will have emphasised that inflation

is imbedded in most economies, which will force the central banks to raise rates higher and faster. Highlighting those recessionary fears, the US 2-year vs 10-year yield spread briefly inverted for the first time since April, and speaking of government bonds, the T-bond is 25bps higher – that's right, it's not a typo – the actual yield is now at 3.40%, its highest level since 2011. Needless to say, New Zealand and Australian swap rates will be a lot higher this morning! The NZD and AUD were also under pressure in the overnight session and now appear to be targeting their early May lows and, in this environment, you've got to respect the trend.

International economists are now starting to question whether the BoE and the Federal Reserve will step into their respective hiking cycles and deliver 75bps hikes this week, while those same economists are also forecasting house prices in most of the major economies to fall between -10% to -20%, which will knock -0.5% to -1.0% off GDP. Naturally they have New Zealand and Australian house prices falling -20% and -15%.

And right on cue

The doomsayers are hitting the headlines after a *Financial Times* survey forecast a US recession in 2023, Goldman Sachs announced their median recession forecast scenario takes the S&P500 to the 3,150 level, while Morgan Stanley is

looking for a 'tradeable low' of 3,400. Chief economic adviser to Allianz, Mohamed El-Erian, announced that the current inflationary pressures "could have been avoided if early action had been taken" by the Federal Reserve. He then urged the Fed to regain its credibility to ease long-term inflation expectations after the Federal Reserve, "mischaracterized what inflation is, and it fell behind. There was hope initially, that it is transitory. There was hope that it had peaked. I never shared those hopes. I think you've got to be very modest about what we know about this inflation process. I fear that it's still going to get worse, we may well get to 9% at this rate."

And the first sign of a possible recession is always a negative GDP print, and we had it last night after the UK's April monthly GDP contracted -0.3% on the month versus the 0.1% gain that was expected. That's a significant miss and reaffirms that the cost of living crisis in the UK is worsening. In the three months to April, UK GDP increased by just 0.2%. As inflation pressures continue to constrict the economy, contracting growth will be a major headwind for the BoE to stay on their tightening path.

The NZIER have downgraded its NZ GDP forecasts to 2.9% for 2022-23, followed by 1.9% and 2.1%, which are 0.7%, 0.8% and 0.4% lower than their March forecasts. The March quarter GDP data will be released later this week.



BANCORP

BANCORP TREASURY SERVICES LIMITED

Barrington
TREASURY SERVICES

Barrington
ASSET CONSULTING



BANCORP

BANCORP CORPORATE FINANCE LIMITED

Daily Rates

Tuesday 14 June 2022

FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	71.30					CAD	0.8058	0.8918
NZD/USD	0.6252	-0.0003	-0.0010	-0.0018	-0.0020	CHF	0.6241	0.6910
NZD/AUD	0.9030	-0.0007	-0.0023	-0.0033	-0.0055	CNY	4.2317	4.6836
NZD/JPY	84.04	-0.17	-0.60	-1.39	-3.41	DKK	4.4661	4.9448
NZD/EUR	0.6004	-0.0014	-0.0047	-0.0094	-0.0183	FJD	1.3562	1.5015
NZD/GBP	0.5155	-0.0004	-0.0016	-0.0032	-0.0068	HKD	4.9078	5.4337
						KRW	807.50	894.04
AU TWI	63.30					MYR	2.7615	3.0574
AUD/USD	0.6922	0.0002	0.0006	0.0005	0.0006	NOK	6.1952	6.8593
AUD/NZD	1.1066	0.0007	0.0024	0.0036	0.0059	SEK	6.3723	7.0548
AUD/JPY	93.01	-0.10	-0.45	-1.21	-3.25	SGD	0.8720	0.9655
AUD/EUR	0.6646	-0.0010	-0.0036	-0.0080	-0.0165	TWD	18.62	20.62
AUD/GBP	0.5708	0.0000	-0.0004	-0.0015	-0.0042	ZAR	10.09	11.17
USD Index	105.21					EQUITIES		
EUR/USD	1.0412	0.0019	0.0063	0.0132	0.0338		Index	
USD/JPY	134.36	-0.21	-0.76	-1.85	-4.81	NZX50	10,925	
GBP/USD	1.2124	0.0003	0.0013	0.0036	0.0098	ASX200	6,932	
EUR/GBP	0.8586	0.0012	0.0039	0.0079	0.0149	Dow Jones	30,526	
						S&P 500	3,747	
INTEREST RATES			New Zealand		Australia	FTSE100	7,206	
			Mid		Mid	DAX 30	13,427	
30 day bank bills			2.14%		0.90%	Nikkei	26,987	
90 day bank bills			2.60%		1.56%	COMMODITIES		
1 year swap			3.76%		2.93%		USD	
2 year swap			4.12%		3.53%	Brent Crude	121.50	
3 year swap			4.20%		3.82%	Gold	1,822.26	
5 year swap			4.22%		3.62%	Silver	21.11	
10 year swap			4.27%		3.86%	Iron Ore	141.51	
3 year Govt bond			3.74%		3.24%	CRB Index	342.61	
5 year Govt bond			3.87%		3.55%		NZD	
10 year Govt bond			4.12%		3.86%	NZ Carbon	76.40	

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