

Market Alert

Tuesday 28 June 2022

CURRENCIES	Spot	6mths
NZD/USD	0.6290	-0.0016
NZD/AUD	0.9092	-0.0033
NZD/JPY	85.19	-1.52
NZD/EUR	0.5944	-0.0097
NZD/GBP	0.5125	-0.0033
NZD/CNH	4.2102	-0.0121
AUD/USD	0.6919	0.0007
AUD/EUR	0.6536	-0.0083
EUR/USD	1.0582	0.0143
USD/CNH	6.6933	0.0004
GBP/USD	1.2265	0.0047
EUR/GBP	0.8624	0.0083

INT RATES	NZ	Australia
OCR/Cash	2.00%	0.85%
90 day bills	2.84%	1.82%
2 year swap	4.12%	3.66%
10 year Govt	3.96%	3.86%

Markets hold their composure

The worsening economic outlook, coupled with the threat of higher interest rates appears to be hitting home. The latest inflation expectations data out of the US is starting to show a welcome drop in inflation risks. The YouGov poll showed inflation expectations eased from 4.2% to 4.0%, the lowest reading since January. Central banks are watching these numbers closely, worried that the inflation spiral becomes impeded in the wider economy.

Following the bumper 75bp Fed hike earlier this month, markets are pricing in another similar-sized hike in July,

although signs of waning economic momentum could yet see expectations ease to a 50bp hike. The prospect of materially higher interest rates continues to underpin the USD, the USD Index is currently hovering near multi-decade highs. However, it is not only the US facing the prospect of a rapid rise in interest rates. While markets have 1.90% of Fed hikes priced in for the US economy by the end of the year, similar to expectations for the NZ tightening cycle, the Australian curve now reflects an astonishing 2.50% of hikes between now and the end of the year (six remaining RBA meetings). Hiking at this pace would represent the sharpest rise on record. Commenting recently on market pricing for a 4.0% cash target rate, RBA Governor Lowe said, *"I don't think it's particularly likely, but the market has been a better judge of where interest rates are going than we have over the past few years."*

Let's see what the week brings

As far as data goes, it was a relatively quiet day. China continues to struggle in their industrial sector as profits were down 6.5% lower than the same month a year ago. Manufacturing and utility companies were the biggest losers, off by 18.0% and 6.0% respectively. This weakness is likely driven by ongoing property company woes and lockdowns experienced throughout the year. The overall results were only somewhat held up by strong profit increases in coal and

other mining companies. The prospect of achieving that 5.5% growth target is slipping further.

As most would expect, things are much worse in Russia as they have just defaulted on their foreign debt. Their first default in roughly 100 years. The default came because of a multitude of sanctions and Russia's resulting inability to move funds.

Pending home sales in the United States increased unexpectedly at 0.7% month-on-month in May of 2022, the first rise in seven months, and above market forecasts of a 3.7% fall. Despite the gain in May, much higher mortgage rates and low supply are expected to continue to weigh on the housing market. This may be a trend we can expect to develop globally as interest rates continue to rise while asset prices slow at an increasing rate.

Overnight the NZD weakened to under 0.6300 as the USD buying continues as indicated by elevated USD index levels. At the time of writing the NZD sits at 0.6292. Against the AUD we are relatively flat at just under 0.9100.



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Daily Rates

Tuesday 28 June 2022

FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	71.10					CAD	0.8102	0.8913
NZD/USD	0.6290	-0.0002	-0.0007	-0.0016	-0.0037	CHF	0.6011	0.6614
NZD/AUD	0.9092	-0.0006	-0.0018	-0.0033	-0.0047	CNY	4.2286	4.6468
NZD/JPY	85.19	-0.18	-0.65	-1.52	-3.57	DKK	4.4219	4.8641
NZD/EUR	0.5944	-0.0014	-0.0046	-0.0097	-0.0189	FJD	1.3621	1.4983
NZD/GBP	0.5125	-0.0004	-0.0015	-0.0033	-0.0068	HKD	4.9347	5.4282
						KRW	809.09	890.00
AU TWI	61.90					MYR	2.7692	3.0461
AUD/USD	0.6919	0.0001	0.0005	0.0007	-0.0009	NOK	6.1607	6.7767
AUD/NZD	1.0994	0.0005	0.0019	0.0035	0.0045	SEK	6.3450	6.9795
AUD/JPY	93.69	-0.14	-0.53	-1.36	-3.44	SGD	0.8715	0.9586
AUD/EUR	0.6536	-0.0011	-0.0038	-0.0083	-0.0175	TWD	18.65	20.52
AUD/GBP	0.5638	-0.0001	-0.0006	-0.0017	-0.0046	ZAR	9.98	10.98
USD Index	103.92					EQUITIES		
EUR/USD	1.0582	0.0020	0.0069	0.0143	0.0281		Index	
USD/JPY	135.42	-0.23	-0.87	-2.08	-5.02	NZX50	10,998	
GBP/USD	1.2265	0.0005	0.0021	0.0047	0.0094	ASX200	6,706	
EUR/GBP	0.8624	0.0012	0.0040	0.0083	0.0161	Dow Jones	31,394	
						S&P 500	3,895	
INTEREST RATES			New Zealand		Australia	FTSE100	7,258	
			Mid		Mid	DAX 30	13,186	
30 day bank bills			2.36%		1.15%	Nikkei	26,871	
90 day bank bills			2.84%		1.82%	COMMODITIES		
1 year swap			3.86%		3.19%		USD	
2 year swap			4.12%		3.66%	Brent Crude	115.21	
3 year swap			4.15%		3.79%	Gold	1,822.19	
5 year swap			4.11%		3.82%	Silver	21.10	
10 year swap			4.11%		4.03%	Iron Ore	129.71	
3 year Govt bond			3.66%		3.29%	CRB Index	318.66	
5 year Govt bond			3.77%		3.57%		NZD	
10 year Govt bond			3.96%		3.86%	NZ Carbon	76.20	

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