

Market Alert

Monday 25 July 2022

CURRENCIES	Spot	6mths
NZD/USD	0.6252	-0.0015
NZD/AUD	0.9024	-0.0034
NZD/JPY	85.08	-1.77
NZD/EUR	0.6120	-0.0103
NZD/GBP	0.5207	-0.0040
NZD/CNH	4.2380	0.0000
AUD/USD	0.6925	0.0008
AUD/EUR	0.6780	-0.0090
EUR/USD	1.0210	0.0143
USD/CNH	6.7571	0.0000
GBP/USD	1.2002	0.0059
EUR/GBP	0.8509	0.0075

INT RATES	NZ	Australia
OCR/Cash	2.50%	1.35%
90 day bills	3.17%	2.29%
2 year swap	4.07%	3.50%
10 year Govt	3.75%	3.51%

The curse of the contracting PMIs

Heading into the weekend, Friday's session was all about PMI prints and their implications on the economic outlook ...

Preliminary PMI estimates from S&P highlighted a potential slowdown for the US economy after the composite index fell to 47.5 in July, from 52.3 in June, in what was the sharpest contraction in private sector activity since May of 2020.

The services sector shrank sharply, and manufacturing growth also slowed, amid

weak demand conditions due to high inflationary pressures and rising interest rates.

In a further sign of contraction, and a day on from its 50bps hike, Eurozone composite PMIs fell below 50, reaching 49.4 in July. Services PMIs plummeted to 50.6, from 53.0. In the UK, composite PMIs, while weaker, still maintain a positive bias hitting 52.8, from 53.7, as input cost inflation moderated for the second consecutive month.

Japanese preliminary Markit manufacturing PMIs essentially flatlined at 52.2 in July, from June's 52.7. Japan also saw headline inflation come in on expectations at 2.4% on the year, while Finance Minister, Shunichi Suzuki, announced, "we need to watch risks of rising inflation on the economy. The recent rise in inflation mainly driven by energy prices. It's up to the BoJ to decide monetary policy. Export growth is keeping pace with the yen weakening."

We also had the release of July's Australian PMIs, with the composite index headlining at 50.6, having eased from 52.6. Manufacturing PMIs eased to 55.7, from 56.2, while services contracted to 50.4, from 52.6, as "interest rate increases, alongside persistent inflationary pressures, have been a pivotal factor contributing to the weakened private sector improvement this month."

The Australian banks were also busy, with Westpac increasing its terminal RBA cash

rate forecast to 3.35%, from 2.60% due to stronger inflation pressures. While Westpac sees a higher terminal cash rate, "We expect the Bank to cut the cash rate by 100bps in 2024."

Central bankers were also quiet ahead of this weeks Fed meeting, although, US Treasury Secretary, Janet Yellen, announced, "I'm not seeing evidence of a US recession now. I expect the Fed's anti-inflation tactics will be successful."

Looking ahead

With US equity markets closing the week in negative territory, commodity prices were also under pressure as wheat plummeted -5.8% while oil prices also eased, but the pessimistic outlook was most prevalent in bond markets where yields plummeted. The US 10-year yield fell 15bps to 2.78%, while the German and Australian bond yields fell 20 and 11 points to reach 1.02% and 3.46%! This flowed through to another bout of USD weakness, which saw the NZD and AUD make modest gains.

Looking ahead, we have the US Fed decision, US Q2 GDP, and earnings reports from a third of the S&P. We also have the Eurozone's largest economies publishing key reports on growth and inflation rate. In Australia we have annual inflation, which is forecast to reach its highest level since 1990, retail sales for June, and Q2 PPIs.



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Daily Rates

Monday 25 July 2022

FX	Spot Mid	FECs (mid)				Spot Mid		
		1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	71.20					CAD	0.8076	0.8943
NZD/USD	0.6252	-0.0002	-0.0007	-0.0015	-0.0033	CHF	0.6010	0.6646
NZD/AUD	0.9024	-0.0007	-0.0019	-0.0034	-0.0057	CNY	4.2339	4.6897
NZD/JPY	85.08	-0.22	-0.75	-1.77	-3.74	DKK	4.5569	5.0474
NZD/EUR	0.6120	-0.0015	-0.0048	-0.0103	-0.0201	FJD	1.3756	1.5237
NZD/GBP	0.5207	-0.0006	-0.0017	-0.0040	-0.0077	HKD	4.9064	5.4345
						KRW	819.02	907.18
AU TWI	62.70					MYR	2.7821	3.0816
AUD/USD	0.6813	0.0003	0.0006	0.0008	-0.0012	NOK	6.1967	6.8637
AUD/NZD	0.6535	0.0006	0.0021	0.0037	0.0060	SEK	6.3762	7.0625
AUD/JPY	94.23	-0.17	-0.64	-1.64	-3.61	SGD	0.8675	0.9609
AUD/EUR	0.6780	-0.0012	-0.0039	-0.0090	-0.0184	TWD	18.64	20.64
AUD/GBP	0.5768	-0.0002	-0.0008	-0.0024	-0.0051	ZAR	10.52	11.66
USD Index	106.55					EQUITIES		
EUR/USD	1.0210	0.0022	0.0067	0.0143	0.0264		Index	
USD/JPY	136.05	-0.31	-1.05	-2.50	-5.08	NZX50	11,263	
GBP/USD	1.2002	0.0009	0.0026	0.0059	0.0091	ASX200	6,792	
EUR/GBP	0.8509	0.0011	0.0036	0.0075	0.0153	Dow Jones	31,899	
						S&P 500	3,962	
INTEREST RATES		New Zealand		Australia		FTSE100	7,276	
		Mid		Mid		DAX 30	13,254	
30 day bank bills		2.73%		1.65%		Nikkei	27,915	
90 day bank bills		3.17%		2.29%		COMMODITIES		
1 year swap		4.01%		3.25%			USD	
2 year swap		4.07%		3.50%		Brent Crude	103.20	
3 year swap		3.99%		3.34%		Gold	1,726.46	
5 year swap		3.89%		3.40%		Silver	18.59	
10 year swap		3.88%		3.60%		Iron Ore	105.39	
3 year Govt bond		3.67%		3.11%		CRB Index	300.29	
5 year Govt bond		3.67%		3.29%			NZD	
10 year Govt bond		3.75%		3.51%		NZ Carbon	72.80	

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