

Market Alert

Friday 19 July 2022

CURRENCIES	Spot	6mths
NZD/USD	0.6258	-0.0004
NZD/AUD	0.9042	-0.0028
NZD/JPY	85.03	-1.67
NZD/EUR	0.6200	-0.0092
NZD/GBP	0.5243	-0.0022
NZD/CNH	4.2571	-0.0303
AUD/USD	0.6918	0.0016
AUD/EUR	0.6854	-0.0081
EUR/USD	1.0090	0.0142
USD/CNH	6.8030	-0.0448
GBP/USD	1.1933	0.0041
EUR/GBP	0.8454	0.0089

INT RATES	NZ	Australia
OCR/Cash	3.00%	1.85%
90 day bills	3.38%	2.37%
2 year swap	3.95%	3.39%
10 year Govt	3.58%	3.40%

While economists are getting optimistic ...

... the individual Fed member is far from being optimistic. After Neel Kashkari announced, "I don't know if we can avoid a recession, although the economic fundamentals are strong, labour supply potential is more or less fixed now. We need to get demand down as third of inflation is being driven by domestic factors, including fiscal. The Fed's forward guidance on the balance sheet helped push long-term yields up rapidly earlier this year." Esther George then added "Last month's inflation number is encouraging

but no time for a victory lap" while James Bullard added, "I think it would make sense to get the policy rate higher and into restrictive territory. I am considering supporting another 75bps hike at the September meeting."

Overnight US data provided modest surprises to the upside after initial unemployment claims fell by 2,000 to 250,000, well below expectations of 265,000. Meanwhile the Philadelphia Fed Manufacturing index rose to 6.2 in August from July's -12.3, returning to positive territory after two consecutive negative readings and above market expectations of -5.0.

RBNZ Governor, Adrian Orr, spoke yesterday with the Government's finance and expenditure select committee and was asked if he has any regrets over the conduct of monetary policy from the outset of the pandemic. Whereby he acknowledged that RBNZ's underlying driver was to lower market interest rates although, "at times monetary policy was overly loose. I apologise for monetary policy's role in high inflation." He then went on to add it is yet to be determined whether market interest rates got too low and that will be part of the review currently under way. Governor Orr then stated that, "deflation would present a greater risk to the economy than high inflation. Labour constraints are a key reason to 'consciously' slow demand to match supply capacity." He then added, "there is, and will be, financial stress in many households."

Australia's seasonally adjusted unemployment rate unexpectedly fell to a new low of 3.4% in July, its lowest since September 1974. The latest result came even as employment fell for the first time in nine months after -40,900 jobs were lost, against an expected increase of 25,000. 86,900 full-time workers were lost while the participation declined to 66.4% from 66.8% in June.

Following Monday's interest rate cut, everyone is getting pessimistic on China after Goldman Sachs cut its 2022 GDP forecast to 3.0% from 3.3%, while Nomura have taken out the knife again cutting their forecasts from 3.3% to 2.8%. Standard Chartered have gone from 4.1% to 3.3%. Surprisingly, Turkey also cut its benchmark interest rate by 100bps to 13.0%.

Wake me up on Sunday!

Overnight the financial markets were a bit like me, a little tired and ready for the weekend! The dollar index broke above the 107.0 mark, a level not seen in a month as investors reassessed the outlook for monetary policy following hawkish remarks from several Fed policymakers. This saw the NZD, AUD, and EUR all ease lower. Surprisingly, with the US 10 year T-bond lower a couple of pips to 2.87%, equities were mildly higher, while commodities were mixed, although oil prices firmed 3.0%.



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Daily Rates

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FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	71.40					CAD	0.8094	0.8950
NZD/USD	0.6258	-0.0002	-0.0002	-0.0004	-0.0013	CHF	0.5982	0.6616
NZD/AUD	0.9042	-0.0006	-0.0016	-0.0028	-0.0037	CNY	4.2594	4.7110
NZD/JPY	85.03	-0.21	-0.71	-1.67	-3.46	DKK	4.6114	5.0977
NZD/EUR	0.6200	-0.0014	-0.0043	-0.0092	-0.0169	FJD	1.3604	1.5039
NZD/GBP	0.5243	-0.0004	-0.0011	-0.0022	-0.0029	HKD	4.9085	5.4261
						KRW	830.16	917.71
AU TWI	62.80					MYR	2.7986	3.0937
AUD/USD	0.6813	0.0002	0.0009	0.0016	0.0012	NOK	6.0887	6.7309
AUD/NZD	0.6535	0.0007	0.0018	0.0031	0.0039	SEK	6.5705	7.2627
AUD/JPY	94.03	-0.17	-0.64	-1.59	-3.53	SGD	0.8669	0.9583
AUD/EUR	0.6854	-0.0011	-0.0036	-0.0081	-0.0163	TWD	18.77	20.75
AUD/GBP	0.5795	-0.0001	-0.0003	-0.0007	-0.0009	ZAR	10.56	11.67
USD Index	107.45					EQUITIES		
EUR/USD	1.0090	0.0020	0.0064	0.0142	0.0262		Index	
USD/JPY	135.89	-0.30	-1.09	-2.58	-5.36	NZX50	11,814	
GBP/USD	1.1933	0.0005	0.0020	0.0041	0.0037	ASX200	7,113	
EUR/GBP	0.8454	0.0012	0.0040	0.0089	0.0185	Dow Jones	34,035	
						S&P 500	4,292	
INTEREST RATES			New Zealand		Australia	FTSE100	7,542	
			Mid		Mid	DAX 30	13,697	
30 day bank bills			3.07%		1.95%	Nikkei	28,942	
90 day bank bills			3.38%		2.37%	COMMODITIES		
1 year swap			3.90%		3.25%		USD	
2 year swap			3.95%		3.39%	Brent Crude	96.60	
3 year swap			3.85%		3.38%	Gold	1,759.04	
5 year swap			3.74%		3.43%	Silver	19.54	
10 year swap			3.75%		3.65%	Iron Ore	105.51	
3 year Govt bond			3.52%		3.05%	CRB Index	310.68	
5 year Govt bond			3.49%		3.18%		NZD	
10 year Govt bond			3.58%		3.40%	NZ Carbon	85.30	

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