

Market Alert

Friday 26 August 2022

CURRENCIES	Spot	6mths
NZD/USD	0.6222	-0.0002
NZD/AUD	0.8917	-0.0023
NZD/JPY	84.96	-1.68
NZD/EUR	0.6237	-0.0089
NZD/GBP	0.5257	-0.0020
NZD/CNH	4.2530	-0.0308
AUD/USD	0.6977	0.0015
AUD/EUR	0.6991	-0.0083
EUR/USD	0.9976	0.0140
USD/CNH	6.8489	-0.0479
GBP/USD	1.1832	0.0039
EUR/GBP	0.8430	0.0089

INT RATES	NZ	Australia
OCR/Cash	3.00%	1.85%
90 day bills	3.45%	2.45%
2 year swap	4.18%	3.62%
10 year Govt	3.96%	3.75%

Friday's recessionary read

The minutes from the ECB's July's meeting underlined its new approach to the normalisation of monetary policy by frontloading its exit from negative rates after the ECB raised its three key interest rates by 50bps ending eight years of negative rates. The minutes also showed the hikes were broadly supported, with few ECB members calling for the forecasted 25bps, while there was a unanimous support for the new TIP programme.

Concerns were raised about the weak EUR as, "The members widely noted that the depreciation of the Euro implied greater inflationary pressures," while wage growth remains a key issue for the ECB as "Members agreed that the persistence of inflation depended, to a large extent, on the behaviour of wages. Wage growth has continued to increase gradually over the last few months."

The list of arguments as to why the German economy is sliding into recession is getting even longer after the Ifo index fell for a third month in a row, coming in at 88.5 in August from 88.7 in July, its lowest level since June 2020, and with expectations anchored close to their all time lows, the question isn't whether there'll be a recession but rather how long and severe it will be! And the European energy crisis won't help after German 1-year forward power priced at EUR732.00 MWh, while the French pricing hit an all-time high at EUR870.00, which is incredible when you consider the 2010-2020 average was around EUR41.00!

Could New Zealand be nearing a technical recession? After Q1's negative print, the sharp drop in Q2 retail sales at -2.3%, when +1.7% had been expected, will weigh on the Q2 GDP print! On an annualised basis, sales dropped to -3.7% from its previous print at 2.3%.

The second release of the Q2 GDP numbers confirmed the US economy contracted an annualised -0.6%, which was less than a -0.9% fall in the advance estimate. Still, the economy technically entered a recession following the -1.6% drop in Q1. Initial jobless claims also came in slightly lower than expected at -243k, while there were also a couple of Fed headlines with Patrick Harker stating, "We need to get to a restrictive stance, which we will do by year-end," while James Bullard added, "My baseline is inflation to be more-persistent than many on Wall St think."

I've been talking about a bear market rally for a while now, so it was good to see there are a few people jumping on the bandwagon with the Morgan Stanley CIO announcing, "As enticing as this rally has been, it is still no more than a bear-market rally. Inflation is far from tamed, earnings estimates need to be adjusted, and stock market enthusiasm isn't supported by other market dynamics," while the BofA equity head added, "We expect a continued fade in growth momentum, implying equity market downside. While a number of recent macro data points have been favourable, we believe this does not change the underlying narrative."

The US 10-year T-bond eased 6bps to 3.04%, which contributed to USD weakness and supported the NZD and AUD, with the AUD out-performing which drove the NZD/AUD cross to 0.8920!



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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	71.20					CAD	0.8044	0.9020
NZD/USD	0.6222	-0.0001	-0.0002	-0.0002	-0.0005	CHF	0.5995	0.6723
NZD/AUD	0.8917	-0.0005	-0.0013	-0.0023	-0.0028	CNY	4.2558	4.7667
NZD/JPY	84.96	-0.22	-0.73	-1.68	-3.54	DKK	4.6378	5.2005
NZD/EUR	0.6237	-0.0014	-0.0042	-0.0089	-0.0166	FJD	1.3523	1.5164
NZD/GBP	0.5257	-0.0004	-0.0011	-0.0020	-0.0020	HKD	4.8821	5.4745
						KRW	829.88	930.58
AU TWI	63.50					MYR	2.7812	3.1187
AUD/USD	0.6813	0.0002	0.0008	0.0015	0.0007	NOK	6.0066	6.7355
AUD/NZD	0.6535	0.0005	0.0015	0.0024	0.0025	SEK	6.5856	7.3847
AUD/JPY	95.25	-0.19	-0.69	-1.64	-3.69	SGD	0.8639	0.9687
AUD/EUR	0.6991	-0.0012	-0.0038	-0.0083	-0.0165	TWD	18.79	21.07
AUD/GBP	0.5895	-0.0001	-0.0004	-0.0008	-0.0005	ZAR	10.42	11.68
USD Index	108.42					EQUITIES		
EUR/USD	0.9976	0.0020	0.0065	0.0140	0.0254		Index	
USD/JPY	136.52	-0.32	-1.14	-2.65	-5.59	NZX50	11,627	
GBP/USD	1.1832	0.0006	0.0022	0.0039	0.0022	ASX200	7,048	
EUR/GBP	0.8430	0.0012	0.0040	0.0089	0.0193	Dow Jones	33,237	
						S&P 500	4,180	
						FTSE100	7,480	
						DAX 30	13,272	
						Nikkei	28,479	
INTEREST RATES			New Zealand		Australia			
			Mid		Mid			
30 day bank bills			3.06%		2.05%			
90 day bank bills			3.45%		2.45%			
1 year swap			4.09%		3.37%			
2 year swap			4.18%		3.62%			
3 year swap			4.11%		3.66%			
5 year swap			4.02%		3.73%			
10 year swap			4.06%		3.99%			
3 year Govt bond			3.79%		3.31%			
5 year Govt bond			3.81%		3.48%			
10 year Govt bond			3.96%		3.75%			
						COMMODITIES		
							USD	
						Brent Crude	100.12	
						Gold	1,756.23	
						Silver	19.19	
						Iron Ore	105.55	
						CRB Index	317.71	
							NZD	
						NZ Carbon	85.70	

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