

Market Alert

Friday 23 September 2022

| CURRENCIES | Spot | 6mths |
|------------|--------|---------|
| NZD/USD | 0.5848 | 0.0008 |
| NZD/AUD | 0.8797 | -0.0022 |
| NZD/JPY | 83.26 | -1.77 |
| NZD/EUR | 0.5944 | -0.0072 |
| NZD/GBP | 0.5192 | -0.0016 |
| NZD/CNH | 4.1397 | -0.0236 |
| AUD/USD | 0.6647 | 0.0025 |
| AUD/EUR | 0.6753 | -0.0065 |
| EUR/USD | 0.9839 | 0.0135 |
| USD/CNH | 7.0786 | -0.0504 |
| GBP/USD | 1.1260 | 0.0050 |
| EUR/GBP | 0.8736 | 0.0079 |

| INT RATES | NZ | Australia |
|--------------|-------|-----------|
| OCR/Cash | 3.00% | 2.35% |
| 90 day bills | 3.77% | 2.93% |
| 2 year swap | 4.52% | 3.91% |
| 10 year Govt | 4.09% | 3.75% |

The nuclear option

We saw it all last night – rate rises, intervention, and further weakness in risk assets!

First up, the central banks, with the BoE raising its key interest rate by 50bps to reach 2.25% in what was its 7th consecutive rate hike, this pushed UK borrowing costs to the highest levels since 2008! The Swiss National Bank was even more aggressive, raising interest rates by 75bps, and into positive territory for the first time since 2015, to 0.50% seeing the CHF weaken. The Norwegian central

bank also raised its cash rate by 50bps and signalled another hike will likely be delivered in November.

Finally, the BoJ maintained its ultra-low interest rate strategy and left its interest rates unchanged, as was expected. This saw the USD/JPY surge pass the 145.00 level to eventually top out at 145.90, a 24-year low for the JPY! Japan's top currency diplomat, Masato Kanda, reiterated his warnings about FX intervention, which the BoJ duly acted upon as the Japanese authorities intervened to support the yen for the first time since 1998! The USD/JPY retreated to the 142.40 handle, and the NZD/JPY and the AUD/JPY also retreated to 83.25 and 94.65, respectively.

In attempting to maintain their cash rate at -0.10%, and the 10-year JGB yield at a maximum of 0.25%, the Japanese authorities intervening in the currency markets to strengthen the JPY signals was a counter-productive monetary policy! Currency intervention by itself will not work as the interest rate differential between the US and Japan remains and is widening! However, don't worry, there is good news – the BoJ will spend billions defending the JPY before they eventually amend their interest rate strategy, and the banks will make a fortune before they eventually capitulate!

With central bankers acting aggressively and intervening to support their currencies, what did this actually mean? Well, the

equity markets remain under pressure with European bourses off 0.10%-0.50% lower, while the US exchanges are also in negative territory, they are rallying into the close.

Once again, investors are fretting over the implication of tighter global monetary policy on global growth. Treasury yields are also continuing to rally with the US 2-year yield up 8bps to 4.12%, while the 10-years rocketed past the 3.50% level surging 17bps to 3.70%. Interestingly, the NZ and US 2-year swap pricing is aligning with both trading in the low 4.50%'s, although the AU 2-year IRS will open around the 4.00% level. The US dollar has managed to maintain a positive performance on the day, which is a little surprising given the intervention, although the NZD and AUD have recovered a touch from their 0.5803 and 0.6574 lows!

In other news, ECB executive board member, Isabel Schnabel announced, *"In the short-term, inflation could rise even further despite the rate hikes. A German recession may be unavoidable,"* while Goldman Sachs announced that the new, hyper-aggressive FOMC *"need to see the unemployment rate move to 5-6% to be confident that inflation will move lower"* which, in their analyst, puts *"the S&P 500 in the 2900-3375 range."*

Finally, and in possibly the most disappointing news, the NZ trade deficit surged in August by NZD-2.4 billion to reach NZD-12.2 billion on the year.



BANCORP

BANCORP TREASURY SERVICES LIMITED

Barrington
TREASURY SERVICES

Barrington
ASSET CONSULTING



BANCORP

BANCORP CORPORATE FINANCE LIMITED

Daily Rates

Friday 23 September 2022

| FX | Spot | FECs (mid) | | | | Spot Mid | | |
|-----------------------|--------|------------|--------------------|---------|------------------|--------------------|--------------|--------|
| | Mid | 1mth | 3mths | 6mths | 12mths | NZD/... | AUD/... | |
| NZ TWI | 68.90 | | | | | CAD | 0.7884 | 0.8963 |
| NZD/USD | 0.5848 | 0.0000 | 0.0001 | 0.0008 | 0.0023 | CHF | 0.5711 | 0.6492 |
| NZD/AUD | 0.8797 | -0.0005 | -0.0012 | -0.0022 | -0.0031 | CNY | 4.1287 | 4.6918 |
| NZD/JPY | 83.26 | -0.24 | -0.80 | -1.77 | -3.75 | DKK | 4.4187 | 5.0225 |
| NZD/EUR | 0.5944 | -0.0014 | -0.0039 | -0.0072 | -0.0125 | FJD | 1.3264 | 1.5076 |
| NZD/GBP | 0.5192 | -0.0005 | -0.0012 | -0.0016 | -0.0012 | HKD | 4.5903 | 5.2174 |
| | | | | | | KRW | 821.26 | 933.47 |
| AU TWI | 62.40 | | | | | MYR | 2.6696 | 3.0344 |
| AUD/USD | 0.6813 | 0.0003 | 0.0011 | 0.0025 | 0.0037 | NOK | 6.0803 | 6.9110 |
| AUD/NZD | 0.6535 | 0.0005 | 0.0014 | 0.0024 | 0.0019 | SEK | 6.4689 | 7.3527 |
| AUD/JPY | 94.65 | -0.22 | -0.78 | -1.81 | -4.04 | SGD | 0.8292 | 0.9425 |
| AUD/EUR | 0.6753 | -0.0012 | -0.0035 | -0.0065 | -0.0128 | TWD | 18.49 | 21.01 |
| AUD/GBP | 0.5901 | -0.0002 | -0.0006 | -0.0004 | 0.0004 | ZAR | 10.28 | 11.69 |
| USD Index | 111.23 | | | | | EQUITIES | | |
| EUR/USD | 0.9839 | 0.0021 | 0.0065 | 0.0135 | 0.0233 | | Index | |
| USD/JPY | 142.34 | -0.40 | -1.39 | -3.25 | -6.88 | NZX50 | 11,518 | |
| GBP/USD | 1.1260 | 0.0009 | 0.0023 | 0.0050 | 0.0050 | ASX200 | 6,700 | |
| EUR/GBP | 0.8736 | 0.0012 | 0.0036 | 0.0079 | 0.0167 | Dow Jones | 30,219 | |
| | | | | | | S&P 500 | 3,780 | |
| INTEREST RATES | | | New Zealand | | Australia | FTSE100 | 7,160 | |
| | | | Mid | | Mid | DAX 30 | 12,532 | |
| 30 day bank bills | | | 3.40% | | 2.55% | Nikkei | 27,154 | |
| 90 day bank bills | | | 3.77% | | 2.93% | COMMODITIES | | |
| 1 year swap | | | 4.43% | | 3.77% | | USD | |
| 2 year swap | | | 4.52% | | 3.91% | Brent Crude | 90.41 | |
| 3 year swap | | | 4.42% | | 3.89% | Gold | 1,671.80 | |
| 5 year swap | | | 4.26% | | 3.96% | Silver | 19.62 | |
| 10 year swap | | | 4.19% | | 4.16% | Iron Ore | 98.65 | |
| 3 year Govt bond | | | 4.06% | | 3.44% | CRB Index | 298.16 | |
| 5 year Govt bond | | | 4.03% | | 3.55% | | NZD | |
| 10 year Govt bond | | | 4.09% | | 3.75% | NZ Carbon | 81.75 | |

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