

Market Alert

Thursday 8 September 2022

CURRENCIES	Spot	6mths
NZD/USD	0.6076	-0.0001
NZD/AUD	0.8975	-0.0029
NZD/JPY	87.32	-1.80
NZD/EUR	0.6069	-0.0082
NZD/GBP	0.5267	-0.0018
NZD/CNH	4.2075	-0.0230
AUD/USD	0.6766	0.0020
AUD/EUR	0.6758	-0.0072
EUR/USD	1.0008	0.0133
USD/CNH	6.9585	-0.0366
GBP/USD	1.1529	0.0034
EUR/GBP	0.8678	0.0088

INT RATES	NZ	Australia
OCR/Cash	3.00%	2.35%
90 day bills	3.56%	2.64%
2 year swap	4.31%	3.54%
10 year Govt	4.16%	3.78%

Two down, one to go!

In the second of three key central bank rate hikes this week, the Bank of Canada has raised its policy rate by 75bps to 3.25%, as was widely expected. It was the fifth consecutive rate hike following July's surprise 1.00% hike and brings the cumulative policy tightening to 3.00% this year. The committee acknowledged that while inflation slowed to 7.6% last month, and Q2 GDP growth was less than expected at 3.3%, it stressed the Canadian economy continues to experience "excess demand" and a tight labour market.

Further hikes are coming, but likely at a slower pace, with the cash rate set to hit 4.0% by year end. That just leaves tonight's ECB meeting to round out this week's hiking action!

The Federal Reserve's Beige book highlighted that while economic activity was unchanged, with five Districts reporting modest growth in activity and five others reporting modest softening, increasing wage costs and a weakening outlook over the next 6-12 months generated a pessimistic tone to the report. However, on a positive note, the US monthly trade deficit narrowed by an incredible USD10.2 billion, to a 9 month low of USD70.7 billion in July, which was broadly in line with market forecasts.

Michael Barr, the Vice Chair for Supervision at the Federal Reserve, announced, "Inflation is far too high. The Fed committed to getting inflation down, even if it requires a slowdown, and some pain" while Lael Brainard added, "We are highly attentive to events abroad with global tightening potentially lowering inflationary pressures in the US. We are also very focused on the housing sector."

Liz Truss's first act as the new UK Prime Minister is to propose a GBP110 billion bill to cap UK energy prices, which could potentially shave up to 6.0% off January's inflation peak. While no one has asked the crucial question 'how is it going to be funded,' there is no doubt that debt

issuance will be part of the answer (in addition to funding the tax cuts, the existing deficit, and their quantitative tightening programme). This won't help gilt yields, or the pound, which fell to its lowest level against the USD in 37 years.

China's unprecedented heatwave, electricity shortages, and COVID-19 restrictions are starting to show up in its economic data, with exports in the year to August growing at a modest 7.1%, or USD314.9 billion, which was below market forecasts of 12.8%. It was the lowest growth in shipments, and the first single-digit growth since April. The Chinese megacity of Chengdu has extended its lockdowns.

Despite the aggressive rate hikes, Australian Q2 GDP grew an impressive 0.9% on the quarter and 3.5% on the year. Net exports were the major contributor, adding 4.5%, while government and household spending added 3.5% and 1.1% respectively.

Equities bounce, for a change

International equity bourses recovered some of their lustre overnight, rallying 0.5%-2.0%, while oil prices fell over 5.0% to their lowest level since January amid global growth concerns. This weakness also filtered through to US Treasury yields, with the 10-year yield down 9bps to 3.26%, while the US Dollar Index had a rare down day, which saw the NZD and AUD stage modest recoveries.



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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	70.30					CAD	0.7965	0.8873
NZD/USD	0.6076	0.0000	-0.0001	-0.0001	-0.0010	CHF	0.5930	0.6606
NZD/AUD	0.8975	-0.0005	-0.0015	-0.0029	-0.0055	CNY	4.2013	4.6849
NZD/JPY	87.32	-0.25	-0.79	-1.80	-3.88	DKK	4.5134	5.0261
NZD/EUR	0.6069	-0.0013	-0.0040	-0.0082	-0.0158	FJD	1.3410	1.4933
NZD/GBP	0.5267	-0.0003	-0.0010	-0.0018	-0.0024	HKD	4.7695	5.3112
						KRW	836.73	931.75
AU TWI	62.50					MYR	2.7342	3.0447
AUD/USD	0.6813	0.0003	0.0009	0.0020	0.0018	NOK	6.0737	6.7634
AUD/NZD	0.6535	0.0005	0.0016	0.0032	0.0044	SEK	6.4942	7.2317
AUD/JPY	97.28	-0.23	-0.73	-1.70	-3.87	SGD	0.8528	0.9497
AUD/EUR	0.6758	-0.0012	-0.0034	-0.0072	-0.0141	TWD	18.74	20.86
AUD/GBP	0.5865	-0.0001	-0.0002	-0.0002	0.0007	ZAR	10.47	11.66
USD Index	109.58					EQUITIES		
EUR/USD	1.0008	0.0022	0.0064	0.0133	0.0237		Index	
USD/JPY	143.70	-0.41	-1.27	-2.93	-6.17	NZX50	11,548	
GBP/USD	1.1529	0.0007	0.0018	0.0034	0.0021	ASX200	6,729	
EUR/GBP	0.8678	0.0014	0.0040	0.0088	0.0186	Dow Jones	31,581	
						S&P 500	3,981	
INTEREST RATES			New Zealand		Australia	FTSE100	7,238	
			Mid		Mid	DAX 30	12,916	
30 day bank bills			3.17%		2.33%	Nikkei	27,430	
90 day bank bills			3.56%		2.64%	COMMODITIES		
1 year swap			4.17%		3.36%		USD	
2 year swap			4.31%		3.54%	Brent Crude	88.11	
3 year swap			4.29%		3.58%	Gold	1,717.09	
5 year swap			4.20%		3.74%	Silver	18.46	
10 year swap			4.24%		4.00%	Iron Ore	97.44	
3 year Govt bond			3.98%		3.31%	CRB Index	296.35	
5 year Govt bond			4.01%		3.48%		NZD	
10 year Govt bond			4.16%		3.78%	NZ Carbon	85.50	

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