

Market Alert

Tuesday 11 October 2022

| CURRENCIES | Spot | 6mths |
|------------|--------|---------|
| NZD/USD | 0.5563 | 0.0009 |
| NZD/AUD | 0.8835 | -0.0037 |
| NZD/JPY | 81.04 | -1.79 |
| NZD/EUR | 0.5730 | -0.0070 |
| NZD/GBP | 0.5028 | 0.0002 |
| NZD/CNH | 3.9871 | -0.0247 |
| AUD/USD | 0.6296 | 0.0036 |
| AUD/EUR | 0.6483 | -0.0053 |
| EUR/USD | 0.9707 | 0.0134 |
| USD/CNH | 7.1563 | -0.0562 |
| GBP/USD | 1.1060 | 0.0009 |
| EUR/GBP | 0.8777 | 0.0109 |

| INT RATES | NZ | Australia |
|--------------|-------|-----------|
| OCR/Cash | 3.50% | 2.60% |
| 90 day bills | 3.95% | 2.95% |
| 2 year swap | 4.79% | 3.83% |
| 10 year Govt | 4.47% | 3.96% |

Ahead of this week's big US releases

Markets were subdued on Monday with bank holidays in the US and Japan. Anticipation, however, looms with this week's US CPI and PPI releases, although it appears financial markets are already front-running a 'poor' inflation print. Equity markets are a sea of red, commodity markets broadly weaker, and bond yields grinding higher, with the German 10-year bund approaching a 14-year high at 3.35% while the T-bond gained 6bps to yield 3.885%. The USD also performed to trend, rallying for the fourth consecutive day

towards the 113.00 level, which saw the NZD and AUD come under renewed selling pressure with the AUD hit particularly hard after Shanghai closed 2 districts due to new COVID-19 restrictions.

What? Financial markets are exposed to leverage, again?

Didn't we learn anything from the GFC?

Overnight the BoE launched a temporary collateral repo facility to enable banks to ease liquidity pressures on their Liability-Driven Investing (LDI) clients. These clients are essentially pension funds that manage their asset allocation and liabilities via leverage. Who would have thunk it! The BoE also announced it will also manage indexed long-term repo operations each Tuesday to support the liquidity pressures of these LDI funds to support the UK pension and gilt markets, which should also support the GBP.

In other European news, the French central bank cut its Q3 French GDP forecast to 0.25% from 0.3%, while the Dutch National Bank's (DNB's) stability report stated, "Financial stability risks have increased over the past six months. High inflation, rising interest rates, the war in Ukraine, and the possibility of a global recession have combined to create an unprecedented situation. Inflation may remain high for longer than is currently being anticipated in financial markets and economic forecasts."

Across the ditch, The Australian Industry Group Australian Performance of Services Index contracted to 48.0 in September, from 53.3 in August.

Famed economist, Mohamed El-Erian, announced, "The Fed made two big mistakes that'll go down in the history books, spurring a damaging recession! They mis-characterising inflation as transitory. By that, they meant it is temporary, it's reversible. Then, once the Federal Reserve finally accepted the CPI readings were persistently high, they did not act in a meaningful way!" Meanwhile, JPMorgan CEO, Jamie Dimon, announced, "There will likely to be a recession in six to nine months. The crack that would tip the scales would likely be in credit markets. Markets could become disorderly soon. We could see S&P easily go down another 20%. Negative rates when it all said and done will be viewed as a complete failure. The Fed should have started to tighten sooner!"

Finally, Fed Vice Chair, Lael Brainard, announced, "Higher interest rates are working to temper demand and bring better alignment with supply, which is still constrained. Output has decelerated so far this year by more than anticipated, suggesting that policy tightening is having some effect. The excess savings held by households is about 25% lower, which may imply a more subdued pace of consumer spending. Monetary policy will be restrictive for some time while the declining Fed balance sheet will reinforce its tightening of rates, although we also recognise liquidity is fragile in some core markets."



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Daily Rates

Tuesday 11 October 2022

| FX | Spot | FECs (mid) | | | | Spot Mid | | |
|-----------------------|--------|--------------------|---------|------------------|---------|--------------------|--------------|--------|
| | Mid | 1mth | 3mths | 6mths | 12mths | NZD/... | AUD/... | |
| NZ TWI | 67.10 | | | | | CAD | 0.7655 | 0.8666 |
| NZD/USD | 0.5563 | 0.0001 | 0.0004 | 0.0009 | 0.0012 | CHF | 0.5561 | 0.6294 |
| NZD/AUD | 0.8835 | -0.0004 | -0.0018 | -0.0037 | -0.0068 | CNY | 3.9685 | 4.4904 |
| NZD/JPY | 81.04 | -0.25 | -0.86 | -1.79 | -3.87 | DKK | 4.2619 | 4.8234 |
| NZD/EUR | 0.5730 | -0.0012 | -0.0040 | -0.0070 | -0.0131 | FJD | 1.2768 | 1.4450 |
| NZD/GBP | 0.5028 | -0.0003 | -0.0006 | 0.0002 | 0.0024 | HKD | 4.3667 | 4.9421 |
| | | | | | | KRW | 794.01 | 898.63 |
| AU TWI | 60.10 | | | | | MYR | 2.5857 | 2.9264 |
| AUD/USD | 0.6813 | 0.0004 | 0.0017 | 0.0036 | 0.0054 | NOK | 5.9398 | 6.7224 |
| AUD/NZD | 0.6535 | 0.0004 | 0.0019 | 0.0037 | 0.0066 | SEK | 6.2898 | 7.1185 |
| AUD/JPY | 91.73 | -0.24 | -0.80 | -1.66 | -3.73 | SGD | 0.7992 | 0.9045 |
| AUD/EUR | 0.6483 | -0.0011 | -0.0032 | -0.0053 | -0.0101 | TWD | 17.69 | 20.02 |
| AUD/GBP | 0.5691 | -0.0001 | 0.0004 | 0.0025 | 0.0070 | ZAR | 10.06 | 11.39 |
| USD Index | 113.04 | | | | | EQUITIES | | |
| EUR/USD | 0.9707 | 0.0022 | 0.0074 | 0.0134 | 0.0229 | | Index | |
| USD/JPY | 145.67 | -0.47 | -1.66 | -3.45 | -7.16 | NZX50 | 10,918 | |
| GBP/USD | 1.1060 | 0.0007 | 0.0020 | 0.0009 | -0.0042 | ASX200 | 6,668 | |
| EUR/GBP | 0.8777 | 0.0013 | 0.0050 | 0.0109 | 0.0242 | Dow Jones | 29,237 | |
| | | | | | | S&P 500 | 3,623 | |
| INTEREST RATES | | New Zealand | | Australia | | FTSE100 | 6,959 | |
| | | Mid | | Mid | | DAX 30 | 12,273 | |
| 30 day bank bills | | 3.57% | | 2.71% | | Nikkei | 27,116 | |
| 90 day bank bills | | 3.95% | | 2.95% | | COMMODITIES | | |
| 1 year swap | | 4.69% | | 3.59% | | | USD | |
| 2 year swap | | 4.79% | | 3.83% | | Brent Crude | 95.74 | |
| 3 year swap | | 4.68% | | 3.87% | | Gold | 1,669.06 | |
| 5 year swap | | 4.52% | | 4.01% | | Silver | 19.63 | |
| 10 year swap | | 4.49% | | 4.30% | | Iron Ore | 95.62 | |
| 3 year Govt bond | | 4.33% | | 3.43% | | CRB Index | 306.92 | |
| 5 year Govt bond | | 4.34% | | 3.64% | | | NZD | |
| 10 year Govt bond | | 4.47% | | 3.96% | | NZ Carbon | 82.22 | |

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