

Market Alert

Tuesday 29 November 2022

| CURRENCIES | Spot | 6mths |
|------------|--------|---------|
| NZD/USD | 0.6179 | 0.0007 |
| NZD/AUD | 0.9271 | -0.0059 |
| NZD/JPY | 85.83 | -2.09 |
| NZD/EUR | 0.5964 | -0.0073 |
| NZD/GBP | 0.5156 | -0.0019 |
| NZD/CNH | 4.4735 | -0.0590 |
| AUD/USD | 0.6663 | 0.0049 |
| AUD/EUR | 0.6431 | -0.0038 |
| EUR/USD | 1.0357 | 0.0138 |
| USD/CNH | 7.2411 | -0.1037 |
| GBP/USD | 1.1979 | 0.0057 |
| EUR/GBP | 0.8647 | 0.0072 |

| INT RATES | NZ | Australia |
|--------------|-------|-----------|
| OCR/Cash | 4.25% | 2.85% |
| 90 day bills | 4.45% | 3.16% |
| 2 year swap | 5.16% | 3.79% |
| 10 year Govt | 4.10% | 3.61% |

Heed the warning ...

The Federal Reserve's most hawkish member, St. Louis President James Bullard, came out swinging with an overnight warning. Bullard stated that financial markets are underestimating the chances that policymakers will need to be more aggressive in raising interest rates next year to curb inflation as it remains "far too high." He then added, "The Fed will have to pursue rate hikes into 2023. Markets are under-pricing the risk the FOMC may be more aggressive. The first 250bps shouldn't be counted as true policy tightening." Later, James's New York colleague, John Williams stated, "We have

more work to do on inflation. I expect the US jobless rate to rise from 3.7% to 4.5%-5.0% by late 2023, and inflation to cool to 5.0%-5.5% by the end of 2022, and 3.0%-3.5% by late 2023."

Part of the reason for this hawkish talk has been the underlying strength of the US economy, and while any gains are good gains, the Dallas Fed's manufacturing activity index improved to -14.4 from October's -19.4. This saw Goldman announce it now projects a 39% probability the US will enter a recession next year, although risk assets are 'only' implying an 11% chance as, "Equity risk premia appear low considering elevated recession risk and uncertainty on the growth/inflation mix," as the risk of further equity sell-offs remains high due to weak growth, high volatility and stretched valuations.

The last couple of days has seen a groundswell in discontent in China following a deadly high-rise fire in Xinjiang where many believe virus controls prevented many residents from escaping the fire while also hampering rescuers. This saw protests erupt in dozens of Chinese cities, including Shanghai. As a result, Goldman now sees a 30% chance of a "forced and disorderly" exit from Covid restriction by April next year.

The Chinese protests also filtered through to the oil market with prices tumbling to their lowest levels since

December 2021 as risk assets came under pressure. This saw WTI fall below USD74.00 per barrel at one stage, although rumours have started to circulate that OPEC may cut production by up to 500k barrels per day, which saw pricing recover. And the turmoil at Apple's Zhengzhou plant isn't helping Chinese production numbers either, with the word on the street suggesting it could result in a deficit of up to 6 million Apple iPhone Pro units this year.

We also had the ECB President, Christine Lagarde, speak to the European Parliament, although she didn't announce anything particularly interesting, stating, "it is appropriate that the balance sheet is normalised over time in a measured and predictable way. How much further rates need to go, and how fast, depends on the persistence of shocks, and the reaction of wages and inflation. In December we will lay out the key principles for reducing our bond holdings."

International equity markets came under renewed selling pressure as concerns grew China may have to tighten its Covid curbs further, undermining the prospects for a return to global growth in 2023. This also weighed on commodity markets while bond markets were steady with the T-bond at 3.70%. Finally, the USD saw some safe-haven buying at the end of the session, which saw the NZD and AUD ease back to their session lows.



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Daily Rates

Tuesday 29 November 2022

| FX | Spot | FECs (mid) | | | | Spot Mid | | |
|-----------|--------|------------|---------|---------|---------|--------------------|--------------|--------|
| | Mid | 1mth | 3mths | 6mths | 12mths | NZD/... | AUD/... | |
| NZ TWI | 72.60 | | | | | CAD | 0.8319 | 0.8972 |
| NZD/USD | 0.6179 | 0.0001 | 0.0007 | 0.0007 | 0.0012 | CHF | 0.5862 | 0.6323 |
| NZD/AUD | 0.9271 | -0.0008 | -0.0024 | -0.0059 | -0.0113 | CNY | 4.4697 | 4.8208 |
| NZD/JPY | 85.83 | -0.29 | -0.97 | -2.09 | -4.41 | DKK | 4.4350 | 4.7824 |
| NZD/EUR | 0.5964 | -0.0012 | -0.0035 | -0.0073 | -0.0146 | FJD | 1.3598 | 1.4663 |
| NZD/GBP | 0.5156 | -0.0003 | -0.0009 | -0.0019 | -0.0039 | HKD | 4.8288 | 5.2079 |
| | | | | | | KRW | 827.33 | 892.14 |
| AU TWI | 62.30 | | | | | MYR | 2.7651 | 2.9817 |
| AUD/USD | 0.6813 | 0.0006 | 0.0025 | 0.0049 | 0.0080 | NOK | 6.1776 | 6.6615 |
| AUD/NZD | 0.6535 | 0.0008 | 0.0026 | 0.0064 | 0.0123 | SEK | 6.5027 | 7.0120 |
| AUD/JPY | 92.56 | -0.24 | -0.82 | -1.69 | -3.68 | SGD | 0.8515 | 0.9184 |
| AUD/EUR | 0.6431 | -0.0008 | -0.0022 | -0.0038 | -0.0083 | TWD | 19.15 | 20.65 |
| AUD/GBP | 0.5561 | 0.0001 | 0.0005 | 0.0014 | 0.0027 | ZAR | 10.59 | 11.42 |
| USD Index | 106.45 | | | | | EQUITIES | | |
| EUR/USD | 1.0357 | 0.0022 | 0.0073 | 0.0138 | 0.0255 | | Index | |
| USD/JPY | 138.91 | -0.50 | -1.73 | -3.55 | -7.30 | NZX50 | 11,308 | |
| GBP/USD | 1.1979 | 0.0009 | 0.0033 | 0.0057 | 0.0086 | ASX200 | 7,229 | |
| EUR/GBP | 0.8647 | 0.0011 | 0.0036 | 0.0072 | 0.0149 | Dow Jones | 33,986 | |
| | | | | | | S&P 500 | 3,980 | |
| | | | | | | FTSE100 | 7,474 | |
| | | | | | | DAX 30 | 14,383 | |
| | | | | | | Nikkei | 28,163 | |
| | | | | | | COMMODITIES | | |
| | | | | | | | USD | |
| | | | | | | Brent Crude | 83.33 | |
| | | | | | | Gold | 1,741.59 | |
| | | | | | | Silver | 20.95 | |
| | | | | | | Iron Ore | 92.74 | |
| | | | | | | CRB Index | 295.22 | |
| | | | | | | | NZD | |
| | | | | | | NZ Carbon | 86.00 | |

| INTEREST RATES | New Zealand | | Australia |
|-------------------|-------------|--|-----------|
| | Mid | | Mid |
| 30 day bank bills | 4.35% | | 2.99% |
| 90 day bank bills | 4.45% | | 3.16% |
| 1 year swap | 5.28% | | 3.65% |
| 2 year swap | 5.16% | | 3.79% |
| 3 year swap | 4.87% | | 3.75% |
| 5 year swap | 4.51% | | 3.71% |
| 10 year swap | 4.32% | | 3.96% |
| 3 year Govt bond | 4.56% | | 3.24% |
| 5 year Govt bond | 4.32% | | 3.34% |
| 10 year Govt bond | 4.10% | | 3.61% |

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