

Market Alert

Tuesday 14 February 2023

CURRENCIES	Spot	6mths
NZD/USD	0.6362	-0.0001
NZD/AUD	0.9127	-0.0057
NZD/JPY	84.31	-2.21
NZD/EUR	0.5932	-0.0061
NZD/GBP	0.5237	-0.0022
NZD/CNH	4.3409	-0.0549
AUD/USD	0.6971	0.0042
AUD/EUR	0.6497	-0.0028
EUR/USD	1.0727	0.0107
USD/CNH	6.8219	-0.0852
GBP/USD	1.2146	0.0048
EUR/GBP	0.8829	0.0052

INT RATES	NZ	Australia
OCR/Cash	4.25%	3.35%
90 day bills	5.10%	3.55%
2 year swap	5.22%	4.04%
10 year Govt	4.33%	3.85%

Hands up ... who had their fires on last night?

I did ... and this morning I'll be cleaning up some pot-plants!

International equity markets had a good session overnight, despite the lack of any meaningful data releases, as markets took on an optimistic tone ahead of tonight's US CPI release. To some extent, these positive expectations may have been derived by the NY Fed's consumer inflation expectations survey which saw 1-year ahead inflation expectations flatline at 5.0% while the 3-year expectation decreased -0.2% to 2.7% and the 5-year projections increased by 0.1% to 2.5%. This positivity flowed through to the FX markets with the NZD, and AUD having strong sessions to be half a cent

higher, while the 10-year US treasury eased 3bps to 3.72%.

Who's been a naughty boy?

RBA Governor Philip Lowe is in trouble after he expressed "the possibility that Australia's cash rate could go as far as the Federal Reserve's (now at 4.50%-4.75%). While such an outcome would be way outside consensus market thinking, even after (last weeks) hawkish RBA statement, nobody has really contemplated the spectre of an RBA cash rate with a 5-handle!" But while it's not unusual for a central bank Governor to dine with a bunch of bond traders, the fact that the Governor has not made such comments publicly, or even given a speech in public since last November, is raising concerns.

And speaking of Fed rate hikes, Governor Michelle Bowman warned, "I expect we'll continue to increase the federal funds rate because we have to bring inflation back down to our 2% goal, and in order to do that, we need to bring demand and supply into better balance. The concept of a soft landing is unusual to accomplish (although) it is possible we will still be able to achieve a soft landing. We still see a very strong labour market. (There has) not been as much moderation in inflation as we'd like, but there is a lot of data between now and the next policy meeting."

WSJ Fed insider Nick Timiraos has raised the question as to what would happen should the US economy accelerate, as the

"surprising strength in hiring and consumer spending, together with signs that demand for autos and housing might be stabilizing after a decline, has some economists pointing to an economic growth upturn. A growth pickup could lead the Fed to raise rates more than it would do otherwise to slow inflation to its 2.0% goal over the next few years."

ECB member and Governor of the Banca d'Italia, Ignazio Visco, announced, "Today, disinflation is needed, but given the levels of private and public debts that prevail in the euro area, we must be careful to avoid engineering an unnecessary and excessive rise in real interest rates. I am convinced that the credibility of our actions is preserved not by flexing our muscles in the face of inflation, but by continually showing wisdom and balance." Interestingly, BoA analysts are now forecasting the European stock market, the Stoxx 600, will drop by 20% by Q3 2023.

NZ services PMIs for January increased to 54.5, above December's 52 and ahead of the long-term average at 53.6 but despite RBA Governor Lowe's problems, the NZ IRS curve had another strong session rallying 11-13bps.



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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	0.8479	0.9292
NZD/USD	0.6362	0.0001	0.0001	-0.0001	-0.0008	CHF	0.5849	0.6409
NZD/AUD	0.9127	-0.0008	-0.0027	-0.0057	-0.0107	CNY	4.3390	4.7474
NZD/JPY	84.31	-0.31	-1.04	-2.21	-4.60	DKK	4.4183	4.8413
NZD/EUR	0.5932	-0.0010	-0.0030	-0.0061	-0.0125	FJD	1.3682	1.4991
NZD/GBP	0.5237	-0.0002	-0.0009	-0.0022	-0.0051	HKD	4.9941	5.4722
						KRW	810.35	887.92
AU TWI	62.10					MYR	2.7738	3.0394
AUD/USD	0.6971	0.0007	0.0022	0.0042	0.0069	NOK	6.4238	7.0383
AUD/NZD	1.0952	0.0009	0.0031	0.0064	0.0119	SEK	6.5983	7.2300
AUD/JPY	92.36	-0.25	-0.87	-1.88	-4.02	SGD	0.8449	0.9258
AUD/EUR	0.6497	-0.0005	-0.0014	-0.0028	-0.0063	TWD	19.21	21.05
AUD/GBP	0.5738	0.0003	0.0007	0.0011	0.0010	ZAR	11.35	12.44
USD Index	103.30					EQUITIES		
EUR/USD	1.0727	0.0018	0.0055	0.0107	0.0208		Index	
USD/JPY	132.49	-0.50	-1.66	-3.46	-7.06	NZX50	12,075	
GBP/USD	1.2146	0.0006	0.0022	0.0048	0.0098	ASX200	7,418	
EUR/GBP	0.8829	0.0010	0.0029	0.0052	0.0094	Dow Jones	34,219	
						S&P 500	4,134	
INTEREST RATES			New Zealand		Australia	FTSE100	7,948	
			Mid		Mid	DAX 30	15,397	
30 day bank bills			4.78%		3.30%	Nikkei	27,427	
90 day bank bills			5.10%		3.55%	COMMODITIES		
1 year swap			5.48%		4.03%		USD	
2 year swap			5.22%		4.04%	Brent Crude	86.67	
3 year swap			4.89%		3.91%	Gold	1,855.08	
5 year swap			4.54%		3.88%	Silver	21.94	
10 year swap			4.43%		4.15%	Iron Ore	125.14	
3 year Govt bond			4.62%		3.50%	CRB Index	297.40	
5 year Govt bond			4.35%		3.57%		NZD	
10 year Govt bond			4.33%		3.85%	NZ Carbon	71.95	

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