

Market Alert

Monday 27 February 2023

| CURRENCIES | Spot | 6mths |
|------------|--------|---------|
| NZD/USD | 0.6162 | -0.0002 |
| NZD/AUD | 0.9164 | -0.0060 |
| NZD/JPY | 84.08 | -2.30 |
| NZD/EUR | 0.5841 | -0.0062 |
| NZD/GBP | 0.5157 | -0.0021 |
| NZD/CNH | 4.3035 | 0.0000 |
| AUD/USD | 0.6727 | 0.0042 |
| AUD/EUR | 0.6379 | -0.0026 |
| EUR/USD | 1.0542 | 0.0108 |
| USD/CNH | 6.9799 | 0.0000 |
| GBP/USD | 1.1944 | 0.0044 |
| EUR/GBP | 0.8828 | 0.0056 |

| INT RATES | NZ | Australia |
|--------------|-------|-----------|
| OCR/Cash | 4.75% | 3.35% |
| 90 day bills | 5.13% | 3.56% |
| 2 year swap | 5.37% | 4.19% |
| 10 year Govt | 4.68% | 3.92% |

Is inflation about to turn?

After six consecutive lower prints, US inflation took a nasty turn higher last month after the headline PCE deflator rose to 5.4% in January, from a revised 5.3% in December, having increased 0.6% on the month. More worrying, the core gauge accelerated to 4.7%, from a revised 4.6%, having surged up 0.6% on the month as income and spending remained strong.

The strong inflation print saw equity markets drop, treasury yields jump, and the US dollar strengthen. The US two-year treasury yield rose to 4.80%, its highest level since 2007, while the 10-year rose 7bps to 3.95%, with the OIS

curve fully pricing in 25bps rate hikes in March, May, and June. The NZD/USD dropped to a three month low, while the AUD and EUR also came under selling pressure against the USD.

The news saw Cleveland Fed President Loretta Mester suggest, *"The data shows inflation not yet on trend to get back sustainably to 2% target. The Fed will need to go above 5% and stay there for a while."*

The news out of Germany wasn't any better either after Q4 GDP was finalised at -0.4% while private consumption fell -1.0%, suggesting a recession is likely.

In a similar move to Ms. Mester's comments, the RBNZ's Karen Silk announced *"there will be no pause in tightening (and) all rate hike options are on the table for the policy meeting in April. We will do all that's necessary to control inflation (although) there are still concerns on inflation (going higher)"*. Highlighting the global risks, the IMF's Kristalina Georgieva noted, *"We are not yet seeing inflation going down to target fast enough. Central banks need to stay the course until we are comfortable that price stability is returning."*

Meanwhile, Australian PM Anthony Albanese mirrored Adrian Orr's recent comments by calling on the 'big banks' to boost deposit rates for savers amid concerns rate hikes are only being passed on in full to borrowers.

Westpac have raised their FOMC fed funds forecast peak to 5.25%-5.50% from 4.75-5.00%, and their RBA peak to 4.10%, from 3.85% previously.

BoJ nominee Governor, Kazuo Ueda, in his testimony to the lower house as part of his nomination and confirmation process stated, *"Inflation will fall below 2% around the middle of the next fiscal year. If trend inflation does not improve, the BoJ must consider ways to maintain YCC while being mindful of market distortions. By supporting the economy with monetary easing, the BoJ must support corporate efforts to hike wages."* And right on cue, Japanese inflation for January headlined at 4.3% against an expected 4.5%, and while most Japanese firms are pessimistic in their near term outlook, nearly half of them want the BoJ to change its negative rates policy.

In the UK, consumer confidence rose in February to -38 from -45 while Deutsche Bank announced that of the recent UK rate hikes, only 30% has yet filtered into the wider economy.

A bumpy week

In the US, appearances from several Fed officials will be in the spotlight alongside the ISM PMIs. Elsewhere, investors will follow GDP growth figures for Australia, the ECB minutes and Eurozone CPI, PMIs for China, and preliminary inflation data for the Eurozone.



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Daily Rates

Monday 27 February 2023

| FX | Spot | FECs (mid) | | | | Spot Mid | | |
|-----------------------|--------|------------|--------------------|---------|------------------|--------------------|--------------|--------|
| | Mid | 1mth | 3mths | 6mths | 12mths | NZD/... | AUD/... | |
| NZ TWI | 71.20 | | | | | CAD | 0.8391 | 0.9150 |
| NZD/USD | 0.6162 | -0.0001 | -0.0001 | -0.0002 | -0.0006 | CHF | 0.5795 | 0.6318 |
| NZD/AUD | 0.9164 | -0.0011 | -0.0031 | -0.0060 | -0.0115 | CNY | 4.2844 | 4.6785 |
| NZD/JPY | 84.08 | -0.37 | -1.13 | -2.30 | -4.75 | DKK | 4.3493 | 4.7481 |
| NZD/EUR | 0.5841 | -0.0011 | -0.0032 | -0.0062 | -0.0123 | FJD | 1.3501 | 1.4739 |
| NZD/GBP | 0.5157 | -0.0004 | -0.0010 | -0.0021 | -0.0047 | HKD | 4.8363 | 5.2798 |
| | | | | | | KRW | 809.96 | 884.23 |
| AU TWI | 62.00 | | | | | MYR | 2.7316 | 2.9821 |
| AUD/USD | 0.6727 | 0.0007 | 0.0022 | 0.0042 | 0.0071 | NOK | 6.3511 | 6.9335 |
| AUD/NZD | 1.0898 | 0.0011 | 0.0035 | 0.0067 | 0.0117 | SEK | 6.4641 | 7.0568 |
| AUD/JPY | 91.75 | -0.29 | -0.92 | -1.93 | -4.10 | SGD | 0.8316 | 0.9078 |
| AUD/EUR | 0.6379 | -0.0005 | -0.0013 | -0.0026 | -0.0057 | TWD | 18.90 | 20.63 |
| AUD/GBP | 0.5630 | 0.0003 | 0.0008 | 0.0013 | 0.0018 | ZAR | 11.34 | 12.38 |
| USD Index | 105.26 | | | | | EQUITIES | | |
| EUR/USD | 1.0542 | 0.0019 | 0.0056 | 0.0108 | 0.0202 | | Index | |
| USD/JPY | 136.50 | -0.58 | -1.81 | -3.70 | -7.51 | NZX50 | 11,906 | |
| GBP/USD | 1.1944 | 0.0007 | 0.0021 | 0.0044 | 0.0091 | ASX200 | 7,307 | |
| EUR/GBP | 0.8828 | 0.0010 | 0.0030 | 0.0056 | 0.0105 | Dow Jones | 32,817 | |
| | | | | | | S&P 500 | 3,970 | |
| INTEREST RATES | | | New Zealand | | Australia | FTSE100 | 7,879 | |
| | | | Mid | | Mid | DAX 30 | 15,210 | |
| 30 day bank bills | | | 4.85% | | 3.38% | Nikkei | 27,453 | |
| 90 day bank bills | | | 5.13% | | 3.56% | COMMODITIES | | |
| 1 year swap | | | 5.52% | | 4.16% | | USD | |
| 2 year swap | | | 5.37% | | 4.19% | Brent Crude | 83.16 | |
| 3 year swap | | | 5.11% | | 4.09% | Gold | 1,810.97 | |
| 5 year swap | | | 4.81% | | 3.97% | Silver | 20.77 | |
| 10 year swap | | | 4.65% | | 4.22% | Iron Ore | 125.85 | |
| 3 year Govt bond | | | 4.90% | | 3.61% | CRB Index | 291.91 | |
| 5 year Govt bond | | | 4.68% | | 3.66% | | NZD | |
| 10 year Govt bond | | | 4.68% | | 3.92% | NZ Carbon | 68.00 | |

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