

Market Alert

Wednesday 15 March 2023

CURRENCIES	Spot	6mths
NZD/USD	0.6236	-0.0010
NZD/AUD	0.9331	-0.0073
NZD/JPY	83.70	-2.39
NZD/EUR	0.5810	-0.0066
NZD/GBP	0.5122	-0.0026
NZD/CNH	4.2906	-0.0624
AUD/USD	0.6683	0.0042
AUD/EUR	0.6224	-0.0026
EUR/USD	1.0735	0.0101
USD/CNH	6.8773	-0.0887
GBP/USD	1.2171	0.0036
EUR/GBP	0.8820	0.0053

INT RATES	NZ	Australia
OCR/Cash	4.75%	3.60%
90 day bills	5.04%	3.69%
2 year swap	5.02%	3.62%
10 year Govt	4.34%	3.50%

Inflation eases ... sort of

Annual inflation in the US slowed to 6% in February 2023. Compared to 6.4% in January and the lowest since September 2021. Breaking it down, food prices grew at a slower rate (9.5% previously 10.1%) while the cost of used cars and trucks continued to decline. Core inflation which strips out the cost of food and energy edged lower to 5.5% from 5.6%. While the result overall is a promising one, with prices generally decreasing or at the very least slowing down rates of increases, US inflation remains three times above the Fed's target of 2%.

Australian monthly consumer confidence held near its 30-year low, unchanged from March's 78.5 as, "Confidence in the labour market is starting to wane. Areas of most concern remain: inflation; interest

rates; and the economy. Homebuyer sentiment dropped sharply to its weakest level since 1989." Surprisingly, "there has been an 8.6% lift in house price expectations." Meanwhile, business confidence in Australia decreased to -4.0 points in February from 6.0 points in January, while household spending data for February declined -0.1% m/m (prior -6.2%).

So, what will the Fed do on 23-March?

The calls for next week's FOMC meeting are bordering on extreme with CitiBank holding their 50bps call, 10 banks calling for a 25bps, 3 banks downsizing their call to a hold, while Nomura have called for a 25bps cut adding they are "forecasting a halt to the Fed's balance sheet reduction, adding that a new lending facility is a possibility." That is some range! Meanwhile, BlackRock sees no halt to the Fed's rate hiking campaign as, "US authorities have acted decisively to protect depositors from the collapse of two regional banks. This is not a 2008 repeat. Yet we see this as an example of economic damage and financial cracks from rapid rate hikes. We prefer short-term government bonds for income. Most equities aren't fully pricing the economic damage of hikes, in our view."

In NZ, the local banks are now forecasting an RBNZ peak rate at 5.12%, from 5.38% 3 weeks ago. In Australia, the market is picking a 3.87% cash rate peak in September.

And this is a bit concerning ... JP Morgan believes there are more carry trade issues out there, and the Fed can't support them all. "Yesterday, the Fed/FDIC provided funding support for a specific carry trade that was threatening market stability. Buying longer-term higher-yielding bonds and funding with short-term funds doesn't work with steep yield curve inversion and downward pressure on the price of the long-term yielding assets. While the Fed actions reduced the risk of this specific development, we believe there are many carry trades that will be under pressure, and it will not be possible to backstop all of them. Carry trades develop during a period of cheap financing such as the one we had over the previous decade and in particular during the post-COVID QE."

The market took a breath of relief after a positive inflation result with both S&P 500 and the tech heavy Nasdaq up between 1%-2% respectively, while the US 10-year yield has passed the 3.6% mark. The NZD/USD recovery has been aided US inflation and is currently at 0.6236 while the NZD/AUD currently sits at 0.9332.



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Daily Rates

Wednesday 15 March 2023

FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	71.20					CAD	0.8534	0.9147
NZD/USD	0.6236	0.0000	-0.0001	-0.0010	-0.0038	CHF	0.5695	0.6104
NZD/AUD	0.9331	-0.0011	-0.0034	-0.0073	-0.0142	CNY	4.2801	4.5881
NZD/JPY	83.70	-0.40	-1.16	-2.39	-4.67	DKK	4.3242	4.6343
NZD/EUR	0.5810	-0.0012	-0.0034	-0.0066	-0.0124	FJD	1.3637	1.4616
NZD/GBP	0.5122	-0.0004	-0.0012	-0.0026	-0.0052	HKD	4.8942	5.2450
						KRW	813.48	871.79
AU TWI	60.20					MYR	2.7950	2.9953
AUD/USD	0.6683	0.0008	0.0022	0.0042	0.0062	NOK	6.5779	7.0494
AUD/NZD	1.0712	0.0012	0.0037	0.0082	0.0159	SEK	6.5303	6.9995
AUD/JPY	89.67	-0.32	-0.92	-1.86	-3.70	SGD	0.8384	0.8986
AUD/EUR	0.6224	-0.0005	-0.0014	-0.0026	-0.0037	TWD	19.03	20.39
AUD/GBP	0.5490	0.0002	0.0007	0.0014	0.0029	ZAR	11.30	12.11
USD Index	103.56					EQUITIES		
EUR/USD	1.0735	0.0021	0.0058	0.0101	0.0163		Index	
USD/JPY	134.13	-0.64	-1.81	-3.60	-6.77	NZX50	11,595	
GBP/USD	1.2171	0.0008	0.0022	0.0036	0.0046	ASX200	7,009	
EUR/GBP	0.8820	0.0010	0.0028	0.0053	0.0096	Dow Jones	31,931	
						S&P 500	3,900	
INTEREST RATES			New Zealand		Australia	FTSE100	7,637	
			Mid		Mid	DAX 30	15,233	
30 day bank bills			4.91%		3.62%	Nikkei	27,222	
90 day bank bills			5.04%		3.69%	COMMODITIES		
1 year swap			5.32%		3.64%		USD	
2 year swap			5.02%		3.62%	Brent Crude	77.13	
3 year swap			4.75%		3.57%	Gold	1,905.69	
5 year swap			4.47%		3.56%	Silver	21.86	
10 year swap			4.34%		3.88%	Iron Ore	130.49	
3 year Govt bond			4.57%		3.06%	CRB Index	285.96	
5 year Govt bond			4.35%		3.13%		NZD	
10 year Govt bond			4.34%		3.50%	NZ Carbon	65.25	

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