

Market Alert

Thursday 23 March 2023

CURRENCIES	Spot	6mths
NZD/USD	0.6242	-0.0012
NZD/AUD	0.9293	-0.0082
NZD/JPY	82.09	-2.33
NZD/EUR	0.5742	-0.0065
NZD/GBP	0.5078	-0.0027
NZD/CNH	4.2795	-0.0670
AUD/USD	0.6718	0.0045
AUD/EUR	0.6175	-0.0018
EUR/USD	1.0874	0.0099
USD/CNH	6.8581	-0.0940
GBP/USD	1.2292	0.0022
EUR/GBP	0.8845	0.0052

INT RATES	NZ	Australia
OCR/Cash	4.75%	3.60%
90 day bills	5.18%	3.74%
2 year swap	5.01%	3.40%
10 year Govt	4.30%	3.44%

That's a first, a dovish Fed!

This morning, the Federal Reserve raised its benchmark funds range by 25bps to 4.75%-5.00% with the caveat "some additional policy firming may be appropriate." The median dot-plot forecast has the funds rate at 5.10% by the end of 2023, and 4.30% by 2024 year end, and while this rate hike will be taken as a 'dovish-hike', it should be noted the 2024 median year-end forecast is the same as in December's. The Fed's PCE inflation forecasts were also raised to 3.3% for 2023, from 3.1%, but were kept steady for 2024 at 2.5%. Growth is projected to slow in 2023 to 0.4% from 0.5%, and in 2024 to 1.2% from 1.6%.

There was a change in the language with "ongoing increases in rates" has been altered to "some additional policy firming may be needed." As is the case these days, the Fed "remains highly attentive to inflation risks" and will continue using its balance-sheet to address financial stability. The Fed acknowledges the banking turmoil will affect the economic outlook stating, "recent developments are likely to result in tighter credit conditions for households and businesses and to weigh on economic activity, hiring, and inflation. The extent of these effects is uncertain."

In the Q&A session, Mr Powell started with there has been, "Serious problems in a small number of banks" and history show that, "if left unaddressed, can undermine confidence in the healthy banks. Our banking system is sound and resilient with strong capital and liquidity." He then added, the Fed's programmes are "effectively meeting" liquidity needs. On the broader economy, "inflation remains too high, and the labour market is still tight. Without price stability the economy does not work for anyone (and) while the US economy slowed significantly last year, consumer spending seems to have picked up this quarter."

The 'dovish' perception of the rate hike saw 'normality' return to markets in that equity markets rallied while treasury yields and the USD fell. US 2-yr yields are -19bps lower at 3.99% while the 10-yrs is off -10bps to be at 3.50%. The NZD and AUD both spiked almost 1% against the USD, although they have slipped from their highs.

Don't worry, we've got inflation covered!

Well not in the UK after food and drink prices saw inflation jump to 10.4% in February from January's 10.1%.

Christine Lagarde emphasised the ECB will take "robust" action against inflation, but also aid financial markets if needed, while Joachim Nagel announced, "the ECBs job is not done yet. The bank must be bold and decisive. Inflation projections contain upside risks. Wages may rise more strongly than assumed."

NZ February house sales ... let's just say it's a shocker!

Does anyone like the NZD?

JPMorgan definitely doesn't and is suggesting selling the NZD against the AUD and JPY as, "the NZD stands out as an attractive selling candidate (as it) tends to be an underperformer historically around recessions" while CBA added, "it's too early to conclude the worst of the banking troubles are over. NZD risk is tilted to the downside in the near-term, possibly to under 0.55." Finally, Morgan Stanley added, "historically US-dollar strength tends to last for a while even after the first Fed rate cut in a cycle and it makes sense for investors to have at least some USD-long exposure" suggesting a 0.5800 target for the NZD.



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Daily Rates

Thursday 23 March 2023

FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	70.60					CAD	0.8547	0.9199
NZD/USD	0.6242	-0.0001	-0.0003	-0.0012	-0.0034	CHF	0.5728	0.6163
NZD/AUD	0.9293	-0.0012	-0.0038	-0.0082	-0.0164	CNY	4.2745	4.5928
NZD/JPY	82.09	-0.39	-1.18	-2.33	-4.60	DKK	4.2745	4.5983
NZD/EUR	0.5742	-0.0011	-0.0034	-0.0065	-0.0131	FJD	1.3605	1.4643
NZD/GBP	0.5078	-0.0004	-0.0014	-0.0027	-0.0047	HKD	4.8982	5.2717
						KRW	806.68	868.19
AU TWI	60.50					MYR	2.7789	2.9909
AUD/USD	0.6718	0.0007	0.0023	0.0045	0.0077	NOK	6.4932	6.9884
AUD/NZD	1.0756	0.0013	0.0042	0.0091	0.0176	SEK	6.4075	6.8970
AUD/JPY	88.34	-0.31	-0.92	-1.76	-3.56	SGD	0.8290	0.8922
AUD/EUR	0.6175	-0.0004	-0.0012	-0.0018	-0.0034	TWD	18.86	20.30
AUD/GBP	0.5464	0.0002	0.0006	0.0018	0.0046	ZAR	11.37	12.24
USD Index	102.20					EQUITIES		
EUR/USD	1.0874	0.0019	0.0056	0.0099	0.0166		Index	
USD/JPY	131.35	-0.60	-1.82	-3.48	-6.55	NZX50	11,587	
GBP/USD	1.2292	0.0007	0.0016	0.0022	0.0026	ASX200	7,016	
EUR/GBP	0.8845	0.0009	0.0025	0.0052	0.0116	Dow Jones	32,426	
						S&P 500	4,039	
INTEREST RATES			New Zealand		Australia	FTSE100	7,567	
			Mid		Mid	DAX 30	15,216	
30 day bank bills			5.00%		3.67%	Nikkei	27,467	
90 day bank bills			5.18%		3.74%	COMMODITIES		
1 year swap			5.30%		3.50%		USD	
2 year swap			5.01%		3.40%	Brent Crude	76.81	
3 year swap			4.74%		3.33%	Gold	1,968.64	
5 year swap			4.45%		3.48%	Silver	22.89	
10 year swap			4.30%		3.81%	Iron Ore	128.01	
3 year Govt bond			4.51%		3.01%	CRB Index	283.60	
5 year Govt bond			4.34%		3.10%		NZD	
10 year Govt bond			4.30%		3.44%	NZ Carbon	64.97	

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