

Market Alert

Thursday 6 April 2023

CURRENCIES	Spot	6mths
NZD/USD	0.6312	-0.0016
NZD/AUD	0.9394	-0.0086
NZD/JPY	82.90	-2.36
NZD/EUR	0.5792	-0.0067
NZD/GBP	0.5065	-0.0026
NZD/CNH	4.3455	-0.0690
AUD/USD	0.6719	0.0044
AUD/EUR	0.6161	-0.0015
EUR/USD	1.0902	0.0095
USD/CNH	6.8826	-0.0917
GBP/USD	1.2457	0.0027
EUR/GBP	0.8749	0.0053

INT RATES	NZ	Australia
OCR/Cash	5.25%	3.60%
90 day bills	5.50%	3.69%
2 year swap	5.10%	3.32%
10 year Govt	4.08%	3.37%

"This is no democracy. It is a dictatorship. I am the law."

And while Denzel Washington said the line in the movie 'Remember the Titans,' it could just have easily been Adrian Orr in his ivory tower at Number 2 the Terrace. I wouldn't say the Governor is necessarily out of touch, but I would say he is on a different path from everyone else, and I can't help but wonder how much input was provided from the other members of the Committee!

As I'm sure everyone is now aware, the RBNZ caught the markets out by hiking the OCR a further 50bps to 5.25% against the 25bps expected. The justification for the larger rate hike, that "Inflation is still too high and persistent, and employment is beyond its maximum sustainable level," can

ultimately be pointed at the inflationary impact of the recent weather related events and the internationally driven dip down in global interest rates in March. Unfortunately, these inputs were derived from necessity and international drivers, while immigration doesn't appear to be filling the vacancies in the labour force. I suspect this rate hike was in fact a warning shot to the local banks to ensure they maintain 'higher-rates-for-longer', and that they don't front run the rate cutting cycle when we enter a recession.

There is no doubt this rate hike will impact the shorter end of the domestic curve, out to 2-yrs, but further out, the shape of the NZ curve will continue to be dominated by international flows. Interestingly, the 10-yr US treasury yield fell 4bps overnight below the psychological 3.30% to reach its lowest level since September 2022. This has weighed on international yields and limited the NZ rally. The 5-yr is now only 6bps higher than where it was trading ahead of the RBNZ announcement, while the 10-yrs is just 1bps higher! It has been a similar story with the NZD, yes, the NZD/USD traded as high as 0.6386 in the aftermath of the 50bps hike, but in the overnight market it reached a low of 0.6286, which was lower than the 0.6305 level it was trading at 1.59pm yesterday. Looking ahead, while the rate hike will hurt every New Zealander's wallet, the NZD, and the NZ interest rate curve beyond the 2-yr point, the curve will continue to be driven by international

markets even though the local OIS curve now pricing in a 72% chance Mr. Orr will hike a further 25bps in May.

From the rest of the world

RBA Governor Philip Lowe announced, "The decision to hold rates steady does not imply rate rises are over. It's prudent to hold rates steady to allow more time to assess impact of past increases!"

US overnight releases disappointed with ISM services PMIs falling to 51.2 in March while private companies added just 145k jobs to the workforce. Cleveland Fed chief Loretta Mester also emphasised interest rates should rise above 5% as monetary policy still needs to move "somewhat further into restrictive territory."

In Europe, German factory orders rose 4.8% in February, up from January's revised 0.5%, while French industrial production posted a surprise increasing 1.3% on the year. ECB member Boris Vujcic also believes they've broken the back of the interest-rate cycle although "further hikes" can be expected should core inflation remains above 4.0%.

With bond markets continuing to price in recessions, equity and oil markets gave up some of their recent gains although the USD staged a modest recovery which saw the AUD, NZD, and EUR retreat from their recent highs.



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Daily Rates

Thursday 6 April 2023

FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	72.20					CAD	0.8498	0.9046
NZD/USD	0.6312	-0.0001	-0.0005	-0.0016	-0.0054	CHF	0.5720	0.6091
NZD/AUD	0.9394	-0.0012	-0.0040	-0.0086	-0.0171	CNY	4.3469	4.6200
NZD/JPY	82.90	-0.37	-1.16	-2.36	-4.73	DKK	4.3128	4.5909
NZD/EUR	0.5792	-0.0012	-0.0034	-0.0067	-0.0132	FJD	1.3725	1.4610
NZD/GBP	0.5065	-0.0005	-0.0013	-0.0026	-0.0053	HKD	4.9549	5.2743
						KRW	831.27	884.87
AU TWI	60.50					MYR	2.7754	2.9543
AUD/USD	0.6719	0.0008	0.0024	0.0044	0.0063	NOK	6.5929	7.0181
AUD/NZD	1.0640	0.0013	0.0042	0.0093	0.0187	SEK	6.5741	6.9980
AUD/JPY	88.21	-0.28	-0.86	-1.74	-3.49	SGD	0.8384	0.8925
AUD/EUR	0.6161	-0.0004	-0.0009	-0.0015	-0.0031	TWD	19.28	20.52
AUD/GBP	0.5392	0.0002	0.0009	0.0022	0.0040	ZAR	11.38	12.11
USD Index	101.91					EQUITIES		
EUR/USD	1.0902	0.0018	0.0053	0.0095	0.0159		Index	
USD/JPY	131.31	-0.60	-1.75	-3.46	-6.41	NZX50	11,867	
GBP/USD	1.2457	0.0008	0.0020	0.0027	0.0023	ASX200	7,237	
EUR/GBP	0.8749	0.0008	0.0026	0.0053	0.0105	Dow Jones	33,483	
						S&P 500	4,090	
INTEREST RATES			New Zealand		Australia	FTSE100	7,663	
			Mid		Mid	DAX 30	15,520	
30 day bank bills			5.34%		3.64%	Nikkei	27,813	
90 day bank bills			5.50%		3.69%	COMMODITIES		
1 year swap			5.52%		3.50%		USD	
2 year swap			5.10%		3.32%	Brent Crude	84.82	
3 year swap			4.71%		3.22%	Gold	2,021.01	
5 year swap			4.34%		3.29%	Silver	24.94	
10 year swap			4.16%		3.65%	Iron Ore	120.24	
3 year Govt bond			4.50%		2.92%	CRB Index	299.06	
5 year Govt bond			4.22%		3.01%		NZD	
10 year Govt bond			4.08%		3.37%	NZ Carbon	59.00	

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