

Market Alert

Friday 16 June 2023

CURRENCIES	Spot	6mths
NZD/USD	0.6238	-0.0007
NZD/AUD	0.9056	-0.0045
NZD/JPY	87.50	-2.58
NZD/EUR	0.5698	-0.0058
NZD/GBP	0.4880	-0.0011
NZD/CNH	4.4406	-0.0727
AUD/USD	0.6886	0.0026
AUD/EUR	0.6289	-0.0033
EUR/USD	1.0945	0.0097
USD/CNH	7.1189	-0.1077
GBP/USD	1.2779	0.0011
EUR/GBP	0.8563	0.0066

INT RATES	NZ	Australia
OCR/Cash	5.50%	4.10%
90 day bills	5.71%	4.29%
2 year swap	5.38%	4.38%
10 year Govt	4.58%	4.07%

ECB raises rates to highest level since 2001.

Eleven months into what has been the ECB's most aggressive tightening cycle on record, the central bank hiked its policy rates by 25bps to take the deposit rate to 3.5%. A year ago, it stood at -0.5%! The central bank also updated its forecasts with headline inflation expected to come in at 5.4% this year, 3.0% in 2024 and 2.2% in 2025, while GDP growth will reach 0.9%, 1.5% and 1.6%, which is slightly lower than their March forecasts. At the press conference, ECB President Christine Lagarde confirmed that while, "*The economy (has) stagnated in recent months,*" the ECB has "*more ground to cover*" and that a rate hike in July was very likely.

US retail sales unexpectedly rose 0.3% in May, ahead of forecasts of a -0.1% decline, signalling that consumer spending remains resilient. Incredibly, US retail sales are now 3.9% above their pre-pandemic trendline! But against this, initial claims surged to 262k, the index's highest print since October 2021 which was above expectations at 249k. Finally, the Atlanta Fed GDP Q2 tracker fell from 2.2% to 1.8%.

In China, the PBoC cut the 1-year Medium Lending Facility (MLF) rate from 2.75% to 2.65%. It was the central banks first cut in 10-months. In other releases, the youth unemployment rate (16 to 24-years) rose to a record 20.8%, while the overall unemployment rate reached 5.2%, year-on-year Chinese retail sales fell from 18.4% in April to 12.7% in May, which was below expectations at 13.6%, while industrial production rose to 3.5%, which was also below forecasts at 3.6%.

Australian job numbers exceeded expectations after 75.9k jobs were added against an expected 15k. Of this number, 61.7k jobs were fulltime, as the unemployment rate fell from 3.7% to 3.6%, while the participation rate reached a record high at 66.9%.

Incredibly, US equity markets have produced another stellar session rallying 1.25%, although European exchanges were mixed. But the most interesting action has been in the FX markets where the USD-index was sold on the US open, and it's been one-way ever since. Whether this is due to the hawkish

ECB, the Chinese stimulus, or the fact financial markets aren't buying into Jerome Powell's potential for 2-further rate hikes (market pricing for the rest of the year has just an 80% chance of 1-hike), remains to be seen, but the dollar-index has collapsed to 101.75. This has seen the EUR/USD surge to 1.0950, the AUD/USD bust through the 0.6800 level to 0.6890, while the NZD/USD has underperformed, comparatively, rallying to 0.6240. US bond yields were slightly lower with the 2-yr and 10-yr -6 and -8bps lower at 4.64% and 3.72%, respectively.

How wrong can you be?

The Treasury forecast NZ wouldn't enter a recession. Wrong! The RBNZ forecast we would enter a mild recession in Q3/Q4. Wrong! One of the local banks suggested NZ would enter a 'technical' recession, but it would only be a recession in name ... really ... have you paid a rates bill lately?

Ultimately, New Zealand entered a recession after Q1 GDP contracted -0.1%. This, combined with Q4's -0.7% (revised lower from -0.6%), means the local economy contracted -0.8% over the last 2-quarters. In annual terms, the economy grew 2.2% although it was lower than the 2.6% forecast. While many will 'blame' Cyclone Gabrielle for the poor Q1 result, the main areas of weakness in the data were services, transport, manufacturing, and education, suggesting the wider economy is in a more precarious state than previously forecast.



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Daily Rates

Friday 16 June 2023

FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	71.10					CAD	0.8242	0.9099
NZD/USD	0.6238	-0.0001	-0.0004	-0.0007	-0.0021	CHF	0.5559	0.6138
NZD/AUD	0.9056	-0.0009	-0.0025	-0.0045	-0.0081	CNY	4.4443	4.9058
NZD/JPY	87.50	-0.42	-1.29	-2.58	-5.16	DKK	4.2463	4.6874
NZD/EUR	0.5698	-0.0010	-0.0030	-0.0058	-0.0119	FJD	1.3514	1.4918
NZD/GBP	0.4880	-0.0003	-0.0009	-0.0011	-0.0011	HKD	4.8788	5.3856
						KRW	792.21	874.51
AU TWI	62.80					MYR	2.8845	3.1841
AUD/USD	0.6886	0.0005	0.0015	0.0026	0.0037	NOK	6.5399	7.2195
AUD/NZD	1.1038	0.0010	0.0029	0.0053	0.0092	SEK	6.6093	7.2959
AUD/JPY	96.59	-0.37	-1.17	-2.38	-4.93	SGD	0.8334	0.9200
AUD/EUR	0.6289	-0.0005	-0.0017	-0.0033	-0.0077	TWD	19.11	21.10
AUD/GBP	0.5387	0.0002	0.0005	0.0014	0.0037	ZAR	11.36	12.54
USD Index	102.12					EQUITIES		
EUR/USD	1.0945	0.0017	0.0050	0.0097	0.0192		Index	
USD/JPY	140.26	-0.64	-1.98	-3.97	-7.89	NZX50	11,687	
GBP/USD	1.2779	0.0005	0.0013	0.0011	-0.0018	ASX200	7,175	
EUR/GBP	0.8563	0.0009	0.0029	0.0066	0.0161	Dow Jones	34,429	
						S&P 500	4,433	
INTEREST RATES			New Zealand		Australia	FTSE100	7,628	
			Mid		Mid	DAX 30	16,290	
30 day bank bills			5.63%		4.12%	Nikkei	33,485	
90 day bank bills			5.71%		4.29%	COMMODITIES		
1 year swap			5.76%		4.57%		USD	
2 year swap			5.38%		4.38%	Brent Crude	75.63	
3 year swap			5.02%		4.21%	Gold	1,957.79	
5 year swap			4.63%		4.13%	Silver	23.88	
10 year swap			4.48%		4.27%	Iron Ore	112.75	
3 year Govt bond			4.79%		4.05%	CRB Index	296.19	
5 year Govt bond			4.56%		3.97%		NZD	
10 year Govt bond			4.58%		4.07%	NZ Carbon	60.00	

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