

# Market Alert

Wednesday 5 July 2023

CURRENCIES	Spot	6mths
NZD/USD	0.6193	-0.0005
NZD/AUD	0.9252	-0.0058
NZD/JPY	89.46	-2.76
NZD/EUR	0.5691	-0.0060
NZD/GBP	0.4870	-0.0002
NZD/CNH	4.4790	-0.0738
AUD/USD	0.6692	0.0036
AUD/EUR	0.6149	-0.0028
EUR/USD	1.0879	0.0103
USD/CNH	7.2330	-0.1149
GBP/USD	1.2714	-0.0010
EUR/GBP	0.8556	0.0087

  

INT RATES	NZ	Australia
OCR/Cash	5.50%	4.10%
90 day bills	5.72%	4.38%
2 year swap	5.50%	4.46%
10 year Govt	4.71%	4.07%

## I think the Governor summed it up best!

*"At its meeting today, the Board decided to leave the cash rate target unchanged at 4.10. Higher rates are working to establish a more sustainable balance between supply and demand in the economy and will continue to do so. In light of this and the uncertainty surrounding the economic outlook, the RBA decided to hold interest rates steady this month. This will provide time to assess the impact of rate hikes to date and the economic outlook. Inflation has passed its peak, growth in the economy has slowed, and conditions in the labour market have eased. A significant source of uncertainty continues to be the outlook for household consumption. Some further tightening of monetary policy may be required. The decision to hold rates steady provides more*

*time to assess the state of the economy (as we) remain resolute in our determination to return inflation to target and do what is necessary to achieve that."*

Immediately following the announcement, the AUD sold off to a low of 0.6641, but since then it's bounced back strongly, but why? Certainly, the US holiday would have impacted FX flows with European based traders enjoying an extra-long lunch, but are we seeing a change in trend or sentiment? One theory is that markets are no longer 'rewarding' rate hikes due to the underlying risk that at the top of a cycle, the risk of going too far may tip an economy into a deeper, more prolonged recession. It's far too early to make that kind of judgement call, and I'd have preferred to wait for next week's BoC meeting, but, in the interim, it should be noted that the stronger AUD dragged the NZD higher with it, in fact, the NZD outperformed with NZD/AUD rallying to the 0.9250 level, while most other currencies flatlined. One factor that supported the Antipodean currencies was the sell-off in treasuries, which saw the US 2 and 10-year yields firm 6bp and 4bp higher at 4.94% and 3.86%. Against this, commodity and equity markets were quiet.

Australian weekly consumer confidence fell to 74.1 from 74.9 with inflation expectations remaining at 5.9%, while the NZ GDT dairy auction produced another dire result with the overall index falling a further -3.3% in what was its worst result

since 4-April. The one positive was that WMP was only -0.4% lower, although butter was smashed falling -10.3% and SMP tumbled -6.0%. Following the 4-April result, the index bounced back at the next auction, rallying over 3.0%, so hopefully we see something similar at the next auction in a fortnight. There was a mild positive from the NZ Q2 QSBO report, which highlighted an increase in business confidence as it bounced off its record low at -66.0% firming to -63.0%, although price and cost measures also rose suggesting inflation may remain elevated in Q2.

In other headlines, Germany's trade surplus narrowed to EUR14.4 billion in May, which was lower than June's EUR16.5 billion and below forecasts at EUR 17.5 billion, while China's state-owned banks have lowered their USD deposit rates by as much as 150bp with the sources claiming that some banks were as low as 2.80% (reduced from 4.30%) for large deposits.

Goldman Sachs confirmed, "We continue to believe that core PCE inflation will fall sharply (in 2023). We (have) lowered our core PCE inflation forecast for December 2023 to 3.5% from 3.7%. (We have) left our forecast for December 2024 unchanged at 2.4%."

Japan's MoF Vice Finance Minister for International Affairs, Kanda San, confirmed he is "in communication with various countries, including the US, over currencies."



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# Daily Rates

Wednesday 5 July 2023

FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	71.60					CAD	0.8190	0.8850
NZD/USD	0.6193	-0.0001	-0.0003	-0.0005	-0.0008	CHF	0.5554	0.6003
NZD/AUD	0.9252	-0.0011	-0.0031	-0.0058	-0.0097	CNY	4.4682	4.8283
NZD/JPY	89.46	-0.45	-1.32	-2.76	-5.30	DKK	4.2385	4.5800
NZD/EUR	0.5691	-0.0010	-0.0029	-0.0060	-0.0114	FJD	1.3566	1.4659
NZD/GBP	0.4870	-0.0002	-0.0003	-0.0002	0.0013	HKD	4.8496	5.2403
						KRW	802.27	866.92
AU TWI	61.70					MYR	2.8791	3.1111
AUD/USD	0.6692	0.0007	0.0019	0.0036	0.0052	NOK	6.5887	7.1196
AUD/NZD	1.0804	0.0012	0.0034	0.0064	0.0101	SEK	6.6996	7.2394
AUD/JPY	96.66	-0.39	-1.12	-2.40	-4.80	SGD	0.8355	0.9028
AUD/EUR	0.6149	-0.0004	-0.0011	-0.0028	-0.0061	TWD	19.26	20.81
AUD/GBP	0.5263	0.0004	0.0014	0.0031	0.0069	ZAR	11.56	12.49
USD Index	103.06					<b>EQUITIES</b>		
EUR/USD	1.0879	0.0017	0.0049	0.0103	0.0191		<b>Index</b>	
USD/JPY	144.44	-0.71	-2.07	-4.34	-8.32	NZX50	11,980	
GBP/USD	1.2714	0.0002	0.0001	-0.0010	-0.0067	ASX200	7,279	
EUR/GBP	0.8556	0.0011	0.0036	0.0087	0.0190	Dow Jones	34,418	
						S&P 500	4,456	
<b>INTEREST RATES</b>			<b>New Zealand</b>		<b>Australia</b>	FTSE100	7,520	
			<b>Mid</b>		<b>Mid</b>	DAX 30	16,039	
30 day bank bills			5.65%		4.20%	Nikkei	33,423	
90 day bank bills			5.72%		4.38%	<b>COMMODITIES</b>		
1 year swap			5.82%		4.53%		<b>USD</b>	
2 year swap			5.50%		4.47%	Brent Crude	76.12	
3 year swap			5.11%		4.30%	Gold	1,925.09	
5 year swap			4.68%		4.33%	Silver	22.95	
10 year swap			4.49%		4.41%	Iron Ore	110.87	
3 year Govt bond			4.99%		4.05%	CRB Index	290.27	
5 year Govt bond			4.72%		3.97%		<b>NZD</b>	
10 year Govt bond			4.71%		4.07%	NZ Carbon	37.00	

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