

Market Alert

Monday 14 August 2023

| CURRENCIES | Spot | 6mths |
|------------|--------|---------|
| NZD/USD | 0.5978 | 0.0001 |
| NZD/AUD | 0.9208 | -0.0057 |
| NZD/JPY | 86.73 | -2.55 |
| NZD/EUR | 0.5464 | -0.0051 |
| NZD/GBP | 0.4708 | -0.0001 |
| NZD/CNH | 4.3574 | 0.0000 |
| AUD/USD | 0.6498 | 0.0041 |
| AUD/EUR | 0.5935 | -0.0019 |
| EUR/USD | 1.0944 | 0.0104 |
| USD/CNH | 7.2602 | 0.0000 |
| GBP/USD | 1.2694 | 0.0003 |
| EUR/GBP | 0.8620 | 0.0079 |

| INT RATES | NZ | Australia |
|--------------|-------|-----------|
| OCR/Cash | 5.50% | 4.10% |
| 90 day bills | 5.67% | 4.22% |
| 2 year swap | 5.48% | 4.23% |
| 10 year Govt | 4.92% | 4.18% |

China a “ticking time bomb”

Last week's economic data shone a spotlight on China's problems: deflation; weak trade numbers; dire bank lending stats; but it was the warnings from Chinese property giant, Country Garden, which saw market risk sentiment sour on Friday. Country Garden, which is one of China's biggest property developers, has warned that it could see a loss of up to USD 7.6 billion for the first six months of the year, with Moody's quick to announce a ratings downgrade, citing, “*heightened liquidity and refinancing risks*”.

Last month, Evergrande, which was once China's biggest real estate firm before defaulting on its debts, revealed that in 2021 and 2022 it lost a combined USD 81.1 billion. The construction industry

in China is said to account for around a third of the economy, the current woes prompting US President, Joe Biden, to label China's growing economic issues a “*ticking time bomb*” last week. One wonders if there is more behind US Secretary, Janet Yellen's, four day China visit last week.

The ‘risk-off’ theme saw the USD bid, the NZD/USD dipping back under 0.6000 (down a cent over the week), and the AUD/USD nudging 0.6500 and closing in on a 2023 low. The Australasian currencies also performed poorly against the other majors, touching multi-year lows against both the EUR and GBP.

There was further turbulence in interest rate markets, with the US 10-year yield spiking back to 4.15%, just 10bp off the November high. Perhaps adding to the upward momentum was data showing a 0.3% rise in US producer prices in July, slightly above expectations. Higher US debt issuance is also being blamed for much of the current volatility in US long-term yields, with the recent US credit rating downgrade bringing an unwelcome focus on the ever-growing government debt load and rising servicing costs.

UK economy expands, just

A warm June is being thanked for boosting the UK economy, with figures showing the economy expanded 0.2% in the June quarter, up from a 0.1% rise in the March quarter. While June's

growth was better than expected, the UK remains the only country out of the G7 nations to not yet see its GDP return to pre-Covid levels. And with most of the drag from higher interest rates still to come, that goal may still be some time away. And while most economies have turned the inflation corner, UK CPI is still at 7.9%, almost four times the BoE's 2% target. Market pricing suggests two further interest rate hikes being required in the UK, the only major economy seen as still having further tightening to do to bring inflation back under control.

While the data calendar is light today, this week's highlights include Wednesday's RBNZ policy decision (no change expected but an updated OCR track will be provided), the July FOMC meeting minutes and Australian wage price and jobs data. Wednesday's GlobalDairyTrade auction results will also be nervously awaited. With auction volumes increasing and still few signs of Chinese demand returning, another leg lower is expected – reinforcing Fonterra's recent large downward revision to its milk price forecast.



BANCORP

BANCORP TREASURY SERVICES LIMITED

Barrington
TREASURY SERVICES

Barrington
ASSET CONSULTING



BANCORP

BANCORP CORPORATE FINANCE LIMITED

Daily Rates

Monday 14 August 2023

| FX | Spot | FECs (mid) | | | | Spot Mid | | |
|-----------------------|--------|------------|--------------------|---------|------------------|--------------------|--------------|--------|
| | Mid | 1mth | 3mths | 6mths | 12mths | NZD/... | AUD/... | |
| NZ TWI | 70.20 | | | | | CAD | 0.8031 | 0.8732 |
| NZD/USD | 0.5978 | 0.0000 | 0.0000 | 0.0001 | -0.0004 | CHF | 0.5241 | 0.5673 |
| NZD/AUD | 0.9208 | -0.0010 | -0.0030 | -0.0057 | -0.0106 | CNY | 4.3296 | 4.6995 |
| NZD/JPY | 86.73 | -0.42 | -1.25 | -2.55 | -5.00 | DKK | 4.0690 | 4.4230 |
| NZD/EUR | 0.5464 | -0.0008 | -0.0024 | -0.0051 | -0.0104 | FJD | 1.3237 | 1.4389 |
| NZD/GBP | 0.4708 | -0.0001 | -0.0002 | -0.0001 | 0.0002 | HKD | 4.6731 | 5.0796 |
| | | | | | | KRW | 795.25 | 864.43 |
| AU TWI | 60.60 | | | | | MYR | 2.7409 | 2.9793 |
| AUD/USD | 0.6498 | 0.0007 | 0.0021 | 0.0041 | 0.0067 | NOK | 6.2165 | 6.7573 |
| AUD/NZD | 1.0849 | 0.0010 | 0.0032 | 0.0064 | 0.0121 | SEK | 6.4709 | 7.0338 |
| AUD/JPY | 94.11 | -0.36 | -1.06 | -2.22 | -4.42 | SGD | 0.8082 | 0.8785 |
| AUD/EUR | 0.5935 | -0.0002 | -0.0007 | -0.0019 | -0.0047 | TWD | 19.07 | 20.72 |
| AUD/GBP | 0.5117 | 0.0005 | 0.0015 | 0.0030 | 0.0061 | ZAR | 11.32 | 12.30 |
| USD Index | 102.85 | | | | | EQUITIES | | |
| EUR/USD | 1.0944 | 0.0016 | 0.0048 | 0.0104 | 0.0201 | | Index | |
| USD/JPY | 145.01 | -0.70 | -2.09 | -4.29 | -8.33 | NZX50 | 11,837 | |
| GBP/USD | 1.2694 | 0.0002 | 0.0003 | 0.0003 | -0.0013 | ASX200 | 7,340 | |
| EUR/GBP | 0.8620 | 0.0011 | 0.0035 | 0.0079 | 0.0169 | Dow Jones | 35,281 | |
| | | | | | | S&P 500 | 4,464 | |
| INTEREST RATES | | | New Zealand | | Australia | FTSE100 | 7,524 | |
| | | | Mid | | Mid | DAX 30 | 15,832 | |
| 30 day bank bills | | | 5.64% | | 4.11% | Nikkei | 32,474 | |
| 90 day bank bills | | | 5.67% | | 4.22% | COMMODITIES | | |
| 1 year swap | | | 5.78% | | 4.33% | | USD | |
| 2 year swap | | | 5.48% | | 4.24% | Brent Crude | 86.81 | |
| 3 year swap | | | 5.17% | | 4.13% | Gold | 1,913.32 | |
| 5 year swap | | | 4.85% | | 4.22% | Silver | 22.67 | |
| 10 year swap | | | 4.73% | | 4.48% | Iron Ore | 105.37 | |
| 3 year Govt bond | | | 5.11% | | 3.87% | CRB Index | 313.01 | |
| 5 year Govt bond | | | 4.90% | | 3.90% | | NZD | |
| 10 year Govt bond | | | 4.92% | | 4.18% | NZ Carbon | 60.20 | |

This document has been prepared by Bancorp Treasury Services Limited ("BTSL"). Whilst all reasonable care has been taken to ensure the facts stated are accurate and the opinions given are fair and reasonable, neither BTSL nor any of its directors, officers or employees shall in any way be responsible for the contents. No liability is assumed by BTSL, its directors, officers or employees for action taken or not taken on the basis of this document.



BANCORP
BANCORP TREASURY SERVICES LIMITED

Barrington
TREASURY SERVICES

Barrington
ASSET CONSULTING



BANCORP
BANCORP CORPORATE FINANCE LIMITED