

Market Alert

Wednesday 23 August 2023

CURRENCIES	Spot	6mths
NZD/USD	0.5939	0.0000
NZD/AUD	0.9250	-0.0063
NZD/JPY	86.70	-2.61
NZD/EUR	0.5479	-0.0053
NZD/GBP	0.4664	0.0001
NZD/CNH	4.3177	-0.0583
AUD/USD	0.6421	0.0042
AUD/EUR	0.5919	-0.0017
EUR/USD	1.0845	0.0104
USD/CNH	7.3078	-0.0980
GBP/USD	1.2732	-0.0006
EUR/GBP	0.8517	0.0084

INT RATES	NZ	Australia
OCR/Cash	5.50%	4.10%
90 day bills	5.68%	4.19%
2 year swap	5.67%	4.21%
10 year Govt	5.24%	4.35%

Markets struggle for direction

Markets struggled for direction overnight with the NZD/USD lifting to 0.5970 at one point before dipping back to 0.5925, moves mimicked by the AUD/USD. The US 10-year Treasury yield ranged between 4.30% and 4.36%, consolidating at a 16 year high as the resilient US economy keeps further Fed tightening on the radar. The surge in US yields has undermined US equity markets over recent weeks, with investors beginning to accept the Fed's "higher for longer" guidance. Despite the tightening bias continually expressed by Fed officials, market pricing suggests the tightening cycle has already come to an end, with no further hikes being priced, and a cut fully priced by mid-2024.

Fed Chair Jerome Powell is expected to speak on Friday at the annual Jackson Hole Symposium, although there is unlikely to be any material change in direction given the July Fed minutes noted that most Fed officials saw significant upside risk to inflation, which may require further tightening. Data overnight showed a big fall in US home sales in July, to the lowest level since the start of the year. The 30-year mortgage rate has pushed well above 7.0%, its highest level in more than two decades, suggesting housing demand will continue to struggle.

China again set a stronger than expected daily yuan fixing, as it works to slow the depreciation of its currency. The yuan has been under pressure for months as the Chinese economy struggles, with recent interest rate cuts by the People's Bank of China widening yield differentials with the US. A rally in Chinese equity markets overnight has many scratching their heads, after the Hang Seng Index climbed nearly 2.0% within minutes.

S&P Global Ratings joined Moody's in cutting some US regional bank ratings, targeting those with high commercial real estate exposure. The rating action weighed on the share price of major US banks even though they were not mentioned by S&P. S&P's action came weeks after similar downgrades by its peer Moody's, which lowered ratings on 10 U.S. banks and warned of potential downgrades for several large lenders.

Energy jitters return to Europe

The prospect of industrial action at an Australian liquified natural gas (LNG) plant has caused a 10.0% spike in wholesale gas prices in Europe and the UK, another reminder of the region's fragile energy security after prices soared following Russia's invasion of Ukraine. Australia supplies around 10.0% of the world's supply of LNG. With global oil prices also up more than 15.0% from the June lows, the ECB may still have some work to do to bring inflation back to target. A recent market gauge of long-term inflation expectations tested the highest level since 2010 last week, making it hard to justify an end to the tightening cycle. Market pricing shows a 60.0% change of a hike at next month's ECB meeting.



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Daily Rates

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FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	69.70					CAD	0.8052	0.8706
NZD/USD	0.5939	0.0000	0.0000	0.0000	-0.0005	CHF	0.5228	0.5654
NZD/AUD	0.9250	-0.0011	-0.0031	-0.0063	-0.0123	CNY	4.3303	4.6825
NZD/JPY	86.70	-0.43	-1.26	-2.61	-5.12	DKK	4.0805	4.4117
NZD/EUR	0.5479	-0.0008	-0.0025	-0.0053	-0.0110	FJD	1.3251	1.4326
NZD/GBP	0.4664	-0.0001	0.0000	0.0001	0.0003	HKD	4.6552	5.0330
						KRW	795.18	859.72
AU TWI	60.10					MYR	2.7593	2.9832
AUD/USD	0.6421	0.0007	0.0021	0.0042	0.0076	NOK	6.3125	6.8248
AUD/NZD	1.0807	0.0011	0.0035	0.0071	0.0133	SEK	6.4969	7.0241
AUD/JPY	93.70	-0.36	-1.06	-2.20	-4.37	SGD	0.8063	0.8718
AUD/EUR	0.5919	-0.0002	-0.0006	-0.0017	-0.0042	TWD	18.99	20.53
AUD/GBP	0.5043	0.0005	0.0016	0.0035	0.0071	ZAR	11.15	12.06
USD Index	103.57					EQUITIES		
EUR/USD	1.0845	0.0016	0.0048	0.0104	0.0206		Index	
USD/JPY	145.88	-0.73	-2.12	-4.38	-8.52	NZX50	11,485	
GBP/USD	1.2732	0.0002	0.0001	-0.0006	-0.0028	ASX200	7,122	
EUR/GBP	0.8517	0.0011	0.0036	0.0084	0.0178	Dow Jones	34,301	
						S&P 500	4,398	
INTEREST RATES			New Zealand		Australia	FTSE100	7,271	
			Mid		Mid	DAX 30	15,706	
30 day bank bills			5.65%		4.11%	Nikkei	31,857	
90 day bank bills			5.68%		4.19%	COMMODITIES		
1 year swap			5.84%		4.30%		USD	
2 year swap			5.67%		4.23%	Brent Crude	84.07	
3 year swap			5.40%		4.15%	Gold	1,896.67	
5 year swap			5.10%		4.33%	Silver	23.38	
10 year swap			4.98%		4.61%	Iron Ore	106.48	
3 year Govt bond			5.39%		3.95%	CRB Index	307.09	
5 year Govt bond			5.20%		4.03%		NZD	
10 year Govt bond			5.24%		4.35%	NZ Carbon	65.50	

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