

Market Alert

Thursday 21 September 2023

CURRENCIES	Spot	6mths
NZD/USD	0.5934	0.0000
NZD/AUD	0.9185	-0.0058
NZD/JPY	87.84	-2.59
NZD/EUR	0.5558	-0.0049
NZD/GBP	0.4800	-0.0005
NZD/CNH	4.3345	-0.0455
AUD/USD	0.6461	0.0040
AUD/EUR	0.6050	-0.0015
EUR/USD	1.0676	0.0091
USD/CNH	7.3034	-0.0765
GBP/USD	1.2359	0.0007
EUR/GBP	0.8637	0.0065

INT RATES	NZ	Australia
OCR/Cash	5.50%	4.10%
90 day bills	5.70%	4.19%
2 year swap	5.63%	4.28%
10 year Govt	5.17%	4.29%

The Fed keeps its options open!

While it was no surprise that the FOMC votes unanimously to leave benchmark rate unchanged within the 5.25%-5.50% target range, the 'dot plot' projections highlighted policymakers still foresee one more hike this year, with rate in 2024 and 2025 0.50% higher! They now project a year-end 2024 Fed funds rate at 5.10%, up from 4.60% Ultimately, the Federal Reserve is signalling they expect interest rates will stay higher for longer!

Looking at the detail, 12 out of the 19 policymakers projected one more rate hike this year, with the remaining 7 favouring an unchanged outlook, 2023 GDP forecasts were raised from 1.0% to 2.1%, while Fed officials project a lower peak in the jobless rate with it scaled back to 4.1% from 4.5%. In projecting stronger growth and lower inflation, the

Fed is projecting a soft landing for the US economy.

While the statement maintained the usual rhetoric that officials are considering, "the extent of additional policy firming that may be appropriate," it also acknowledged that while job gains have "slowed," they still "remain strong." In the Q&A, Jerome Powell was quick to emphasise, "We have come very far, very fast. We are taking advantage of the fact that while we have moved quickly, we now have to move a little more carefully as we find our way to the right level of restriction to get inflation back down to 2%," before adding, "we must proceed carefully!" In terms of the longer-term outlook, and higher dot-plots, he added, "It may of course be that the neutral rate has risen" before adding there has been a "meaningful" rebalancing of the labour market without it generating a higher unemployment rate. On the economy he added, "It has been expanding faster than expected this year. Consumer spending has been particularly robust while housing has picked up somewhat. Higher interest rates have been weighing on business fixed investment." Finally, "Given how far we have come, we are in a position to proceed carefully as we assess the incoming data and the evolving outlook and risks. We're prepared to raise rates further if appropriate. We're fairly close, we think, to where we'll need to get."

The PBoC also left their interest rates unchanged, with its 1-year and 5-year loan prime rates at 3.45% and 4.20%, respectively, although the central bank 'confirmed' it has sufficient policy space

to support the Chinese economy, which suggests there may be further rate cuts at upcoming meetings.

In other news, Germany producer prices plummeted 6.0% in July and 12.6% in the year to August in what was the second straight month of decline and the steepest fall since data was first collection in 1949, and, ahead of tomorrow's BoE meeting, the UK inflation rate unexpectedly fell to an 18-month low at 6.7% in August with the core falling from 6.9% to 6.2%.

Financial markets took the Fed and PBoC pauses in their stride ...

... given that was what they expected, although the higher dot-plots weighed on equity markets with the US bourses broadly -1.0% lower. Ahead of the announcement, European exchanges has closed in positive territory. As one would expect, the 'higher-for-longer' narrative contributed to higher yields, with the US 2 and 10-years 6bp and 2bp higher at 5.17% and 4.39% respectively. The USD-index posted modest gains which conversely saw the NZD and AUD give up some of their recent gains. Commodity markets also closed lower, with oil prices -1.25% lower.



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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	70.20					CAD	0.7984	0.8693
NZD/USD	0.5934	-0.0001	-0.0002	0.0000	-0.0017	CHF	0.5327	0.5801
NZD/AUD	0.9185	-0.0011	-0.0031	-0.0058	-0.0117	CNY	4.3505	4.7323
NZD/JPY	87.84	-0.47	-1.30	-2.59	-5.22	DKK	4.1415	4.5093
NZD/EUR	0.5558	-0.0008	-0.0023	-0.0049	-0.0107	FJD	1.3240	1.4415
NZD/GBP	0.4800	-0.0001	-0.0003	-0.0005	-0.0018	HKD	4.6418	5.0541
						KRW	789.44	859.55
AU TWI	60.80					MYR	2.7789	3.0257
AUD/USD	0.6461	0.0007	0.0020	0.0040	0.0056	NOK	6.3872	6.9544
AUD/NZD	1.0883	0.0013	0.0029	0.0065	0.0108	SEK	6.5945	7.1806
AUD/JPY	95.63	-0.38	-1.10	-2.24	-4.53	SGD	0.8092	0.8812
AUD/EUR	0.6050	-0.0002	-0.0006	-0.0015	-0.0041	TWD	19.00	20.69
AUD/GBP	0.5226	0.0005	0.0014	0.0027	0.0047	ZAR	11.15	12.14
USD Index	105.25					EQUITIES		
EUR/USD	1.0676	0.0013	0.0041	0.0091	0.0184		Index	
USD/JPY	147.99	-0.74	-2.15	-4.36	-8.29	NZX50	11,325	
GBP/USD	1.2359	0.0000	0.0000	0.0007	-0.0002	ASX200	7,163	
EUR/GBP	0.8637	0.0010	0.0030	0.0065	0.0146	Dow Jones	34,561	
						S&P 500	4,426	
INTEREST RATES			New Zealand		Australia	FTSE100	7,732	
			Mid		Mid	DAX 30	15,782	
30 day bank bills			5.65%		4.11%	Nikkei	33,024	
90 day bank bills			5.70%		4.19%	COMMODITIES		
1 year swap			5.84%		4.34%		USD	
2 year swap			5.63%		4.29%	Brent Crude	93.30	
3 year swap			5.36%		4.21%	Gold	1,938.35	
5 year swap			5.04%		4.34%	Silver	23.37	
10 year swap			4.91%		4.53%	Iron Ore	122.16	
3 year Govt bond			5.40%		3.98%	CRB Index	324.72	
5 year Govt bond			5.20%		4.02%		NZD	
10 year Govt bond			5.17%		4.29%	NZ Carbon	66.50	

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