

Market Alert

Thursday 02 November 2023

CURRENCIES	Spot	6mths
NZD/USD	0.5843	0.0002
NZD/AUD	0.9154	-0.0044
NZD/JPY	88.19	-2.56
NZD/EUR	0.5540	-0.0046
NZD/GBP	0.4814	-0.0005
NZD/CNH	4.2869	-0.0511
AUD/USD	0.6380	0.0034
AUD/EUR	0.6050	-0.0022
EUR/USD	1.0545	0.0088
USD/CNH	7.3354	-0.0903
GBP/USD	1.2134	0.0011
EUR/GBP	0.8689	0.0062

INT RATES	NZ	Australia
OCR/Cash	5.50%	4.10%
90 day bills	5.68%	4.40%
2 year swap	5.47%	4.49%
10 year Govt	5.59%	5.05%

The Fed remains dovishly hawkish!

The Federal Reserve maintained its target range at 5.25%-5.50% with the statement quoting the usual "Inflation remain elevated" and "The Fed will assess the extent of additional policy firming" but it was the comment, "Tighter financial and credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation. The extent of these effects remains uncertain" that caught the attention of traders. This comment was seen as slightly dovish which saw treasuries bid up and yields plummet. As 1 type, the 2 and 10-year yields have fallen 10 and 9bps respectively to 4.97% and 4.79% respectively, while the USD-index has eased back 30-odd pips which has seen the NZD and AUD firm. Equity

markets bounced strongly, although they gave up some of those gains during the Q&A, while commodity markets remain mixed with oil prices slightly lower.

Conversely, the opening remarks from the press conference were slightly more bullish than the statement, "We are attentive to the increase in longer-term yields. Higher yields are being reflected in the market and having an effect on borrowing although it does not appear that policy expectations are driving rates. We have not made any decisions on future meetings, and going into the December meeting, we'll get 2 more jobs and inflation reports. We will look at all things in December but the idea that it's difficult to re-start hikes after stopping, it's just not true." Jerome Powell also emphasised the Fed cannot yet determine that financial conditions are sufficiently restrictive as "We're not confident that we have got conditions sufficiently restrictive at this point" although conditions have "clearly tightened" as can be seen in rates that consumers and households are paying and how higher borrowing costs are starting to weigh on economic activity given, "The mind's eye goes to the 8%, near-8% mortgage rate." Mr Powell also mentioned that the job market imbalance had improved, but with today's upside surprise in job openings data its gap with the unemployment rate has reversed the recent narrowing trend as "There's still a long way to go to restore the balance of job supply and demand. It is likely to

be true that a softer pace of growth and a softer labour market are likely to be needed to get inflation back toward 2%."

Ahead of the FOMC, the US data showed JOLTS job openings for September reached 9.553m, exceeding the 9.250m forecast, private sector employment increased by 113k in October, below the 150k expected, annual pay rallied 5.7% on the year, and the ISM manufacturing PMIs slipped to 46.7 in October, well below expectations at 49. Finally, the Atlanta Fed GDPNow forecaster has lowered its Q4 forecast from 2.3% to 1.2%.

The NZ Q3 unemployment rate printed in line with expectations and is following a consistent projection after 2022's record low at 3.2% in 2022 with unemployment has since risen to 3.4% in Q1, 3.6% in Q2 and now 3.9% in Q3. This compares with the RBNZ's August MPS forecasts with unemployment set to rise to 3.8% this quarter, before jumping to 4.4% at year-end. The private labour cost index, or wage inflation, fell to 4.1% from 4.3%, while the underutilisation rate jumped from 9.9% to 10.4% implying an increase in spare capacity in the labour market.

Finally, the Caixin China General Manufacturing PMI also came in at 49.5 for October, down from 50.6 the previous month. This was quite far off market forecasts of 50.8 and represents the first drop in factory activity since July.



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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	69.20					CAD	0.8105	0.8853
NZD/USD	0.5843	0.0000	0.0001	0.0002	-0.0006	CHF	0.5308	0.5798
NZD/AUD	0.9154	-0.0009	-0.0026	-0.0044	-0.0076	CNY	4.2737	4.6673
NZD/JPY	88.19	-0.42	-1.33	-2.56	-4.97	DKK	4.1349	4.5158
NZD/EUR	0.5540	-0.0007	-0.0024	-0.0046	-0.0104	FJD	1.3184	1.4399
NZD/GBP	0.4814	-0.0001	-0.0002	-0.0005	-0.0015	HKD	4.5713	4.9914
						KRW	789.17	861.85
AU TWI	60.20					MYR	2.7860	3.0426
AUD/USD	0.6380	0.0006	0.0019	0.0034	0.0048	NOK	6.5513	7.1536
AUD/NZD	1.0918	0.0010	0.0028	0.0050	0.0076	SEK	6.5467	7.1496
AUD/JPY	96.29	-0.37	-1.18	-2.36	-4.69	SGD	0.8002	0.8739
AUD/EUR	0.6050	-0.0002	-0.0009	-0.0022	-0.0065	TWD	18.93	20.67
AUD/GBP	0.5258	0.0004	0.0012	0.0020	0.0026	ZAR	10.84	11.84
USD Index	106.96					EQUITIES		
EUR/USD	1.0545	0.0013	0.0046	0.0088	0.0185		Index	
USD/JPY	150.98	-0.72	-2.28	-4.46	-8.38	NZX50	10,851	
GBP/USD	1.2134	0.0002	0.0008	0.0011	0.0014	ASX200	6,838	
EUR/GBP	0.8689	0.0009	0.0030	0.0062	0.0134	Dow Jones	33,285	
						S&P 500	4,209	
INTEREST RATES			New Zealand		Australia	FTSE100	7,342	
			Mid		Mid	DAX 30	14,923	
30 day bank bills			5.62%		4.23%	Nikkei	31,602	
90 day bank bills			5.68%		4.40%	COMMODITIES		
1 year swap			5.69%		4.54%		USD	
2 year swap			5.47%		4.51%	Brent Crude	84.71	
3 year swap			5.30%		4.51%	Gold	1,976.09	
5 year swap			5.19%		4.82%	Silver	22.75	
10 year swap			5.34%		5.14%	Iron Ore	122.33	
3 year Govt bond			5.38%		4.47%	CRB Index	316.12	
5 year Govt bond			5.38%		4.61%		NZD	
10 year Govt bond			5.59%		5.05%	NZ Carbon	69.90	

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