

Market Alert

Thursday 14 December 2023

| CURRENCIES | Spot | 6mths |
|------------|--------|---------|
| NZD/USD | 0.6170 | -0.0001 |
| NZD/AUD | 0.9308 | -0.0048 |
| NZD/JPY | 88.93 | -2.55 |
| NZD/EUR | 0.5690 | -0.0048 |
| NZD/GBP | 0.4904 | -0.0007 |
| NZD/CNH | 4.4185 | -0.0549 |
| AUD/USD | 0.6627 | 0.0033 |
| AUD/EUR | 0.6112 | -0.0020 |
| EUR/USD | 1.0838 | 0.0088 |
| USD/CNH | 7.1705 | -0.0887 |
| GBP/USD | 1.2580 | 0.0010 |
| EUR/GBP | 0.8616 | 0.0059 |

| INT RATES | NZ | Australia |
|--------------|-------|-----------|
| OCR/Cash | 5.50% | 4.35% |
| 90 day bills | 5.67% | 4.41% |
| 2 year swap | 5.02% | 4.10% |
| 10 year Govt | 4.88% | 4.36% |

As expected, the Fed treads water

As expected, the Federal Reserve left their Fed Funds rate unchanged at a 22-year high of 5.25%-5.50% for a third consecutive meeting and, as expected, sought to temper rate cutting expectations. To be fair, everything proceeded as expected!

So, given all the above, why was there so much anticipation ahead of this meeting? It's the old adage that traders must be pushing the market in one direction or another, and if they can't be pricing in further hikes, then they need to be pricing in cuts. Unfortunately, markets can't just sit and wait for the data with the focus on the dot-plots as traders tried to anticipate when the cutting cycle would begin, and it didn't disappoint. Prior to the release of the statement, financial markets had been treading

water although it should be noted that yesterday's NZ releases had weighed on the local fixed income markets with swap pricing -8bps to -12bps lower. Post the meeting, the statement highlighted that while the Fed, "Will assess the extent of 'any' additional firming" the fact that, "inflation has eased over the past year," and with the median dot-plot forecast now pricing in 75bps of rate cuts in 2024 to 4.60%, treasury yields plummet with the 2-years plummeting -17bps to 4.56% while the 10-years fell -10bps to 4.10%. This naturally weakened the USD with NZD/USD and AUD/USD jumping roughly 0.75% to 0.6175 and 0.6650 at the time of writing. US equity markets gapped higher on the possibility of a fast cutting cycle in 2024, while commodity prices also surged with oil prices 1.5% higher.

In addition, the median projections for inflation were lowered for 2024 and 2025, while unemployment forecasts were left unchanged, suggesting growing confidence that the Fed can cool inflation without significant job losses.

Looking at the other headlines...

US producer prices flatlined at 0.0% in November following October's revised -0.4% fall while core was also flat. Eurozone industrial production fell to its lowest level since 2020, declining -0.7% in October following September's revised -1.0%. The UK economy contracted -0.3% in October, reversing the prior 2 month's gains, while the UK's trade deficit widened to a 5-month high

reaching GBP4.48bn.

The BoJ's large manufacturing Tankan index climbed to 12 in Q4 from Q3's 9 to reach its highest level since Q1 2022, while Chinese banks extended CNY1.09trn in new loans in November, which was a significant increase on the prior months CNY0.74trn but below expectations at CNY1.30trn.

Overnight, Argentinian President Javier Milei's new government devalued the Peso by more than 50.0% to 800 per USD from 365 per USD.

Let's be honest, the NZ data is improving ... from 'terrible' to 'truly awful.'

The New Zealand annual current account deficit worsened by NZD11.46bn in Q3 to make it NZD30.6bn over the last 4 quarters, or 7.6% of GDP. As a percentage of GDP, it is improving from Q4's 2022 all-time low at -8.8%, but the previous time it was this bad was in Q4 2008! Food prices fell -0.2% in November, although they are still 6.0% higher than a year ago! Interestingly, New Zealand's most 'bullish' bank has lowered its Q4 CPI forecast from 0.6% to 0.3%.

Looking at a couple of other countries forecasts, the Australian Treasury has forecast inflation will hit its 2.5% target in late-2025/early-2026 while Japanese firms expect CPI to rise 2.4% in the coming year. Also, the Asian Development Bank has raised its 2023 growth forecast for China from 4.9% to 5.2%.



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Daily Rates

Thursday 14 December 2023

| FX | Spot | FECs (mid) | | | | Spot Mid | | |
|-----------------------|--------|------------|--------------------|---------|------------------|--------------------|--------------|--------|
| | Mid | 1mth | 3mths | 6mths | 12mths | NZD/... | AUD/... | |
| NZ TWI | 71.60 | | | | | CAD | 0.8355 | 0.8975 |
| NZD/USD | 0.6170 | 0.0001 | 0.0002 | -0.0001 | -0.0017 | CHF | 0.5385 | 0.5784 |
| NZD/AUD | 0.9308 | -0.0010 | -0.0024 | -0.0048 | -0.0093 | CNY | 4.3920 | 4.7223 |
| NZD/JPY | 88.93 | -0.47 | -1.27 | -2.55 | -4.96 | DKK | 4.2433 | 4.5574 |
| NZD/EUR | 0.5690 | -0.0008 | -0.0021 | -0.0048 | -0.0114 | FJD | 1.3531 | 1.4542 |
| NZD/GBP | 0.4904 | -0.0001 | -0.0002 | -0.0007 | -0.0022 | HKD | 4.8207 | 5.1777 |
| | | | | | | KRW | 806.78 | 866.53 |
| AU TWI | 61.10 | | | | | MYR | 2.9024 | 3.1173 |
| AUD/USD | 0.6627 | 0.0008 | 0.0018 | 0.0033 | 0.0041 | NOK | 6.6786 | 7.1779 |
| AUD/NZD | 1.0741 | 0.0009 | 0.0026 | 0.0053 | 0.0092 | SEK | 6.3987 | 6.8727 |
| AUD/JPY | 95.54 | -0.41 | -1.12 | -2.26 | -4.45 | SGD | 0.8245 | 0.8862 |
| AUD/EUR | 0.6112 | -0.0002 | -0.0008 | -0.0020 | -0.0063 | TWD | 19.40 | 20.84 |
| AUD/GBP | 0.5267 | 0.0004 | 0.0011 | 0.0020 | 0.0026 | ZAR | 11.66 | 12.53 |
| USD Index | 103.71 | | | | | EQUITIES | | |
| EUR/USD | 1.0838 | 0.0015 | 0.0041 | 0.0088 | 0.0187 | | Index | |
| USD/JPY | 144.17 | -0.77 | -2.09 | -4.11 | -7.61 | NZX50 | 11,476 | |
| GBP/USD | 1.2580 | 0.0004 | 0.0008 | 0.0010 | 0.0011 | ASX200 | 7,258 | |
| EUR/GBP | 0.8616 | 0.0009 | 0.0026 | 0.0059 | 0.0131 | Dow Jones | 36,643 | |
| | | | | | | S&P 500 | 4,673 | |
| INTEREST RATES | | | New Zealand | | Australia | FTSE100 | 36,816 | |
| | | | Mid | | Mid | DAX 30 | 16,766 | |
| 30 day bank bills | | | 5.61% | | 4.35% | Nikkei | 32,926 | |
| 90 day bank bills | | | 5.67% | | 4.41% | COMMODITIES | | |
| 1 year swap | | | 5.50% | | 4.31% | | USD | |
| 2 year swap | | | 5.02% | | 4.12% | Brent Crude | 74.24 | |
| 3 year swap | | | 4.76% | | 4.04% | Gold | 1,999.60 | |
| 5 year swap | | | 4.53% | | 4.23% | Silver | 23.07 | |
| 10 year swap | | | 4.56% | | 4.48% | Iron Ore | 135.66 | |
| 3 year Govt bond | | | 4.89% | | 4.00% | CRB Index | 294.12 | |
| 5 year Govt bond | | | 4.76% | | 4.04% | | NZD | |
| 10 year Govt bond | | | 4.88% | | 4.36% | NZ Carbon | 71.00 | |

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