

Market Alert

Friday 19 February 2021

CURRENCIES	Spot	6mths
NZD/USD	0.7210	-0.0003
NZD/AUD	0.9287	-0.0011
NZD/JPY	76.20	-0.18
NZD/EUR	0.5967	-0.0025
NZD/GBP	0.5248	-0.0005
NZD/CNH	4.6591	0.0591
AUD/USD	0.7763	0.0006
AUD/EUR	0.6425	-0.0020
EUR/USD	1.2082	0.0046
USD/CNH	7.1227	0.0851
GBP/USD	1.3966	0.0008
EUR/GBP	0.8651	0.0028

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.10%
90 day bills	0.28%	0.02%
2 year swap	0.36%	0.08%
10 year Govt	1.49%	1.37%

'Under Pressure'

Freddie said it best, but Adrian Orr is under pressure as there are now 2 local banks forecasting the RBNZ will raise the OCR in mid-to-late 2022. While Mr Orr will not be happy with this, the real question is, how is he going to manage expectations without pushing the NZD and interest rates higher?

Internationally, the data wasn't that good overnight. US initial claims increased to 861,000 against market expectations of a modest 765,000, while a further 516,000 people applied for help from the Pandemic Unemployment Assistance

scheme, which covers workers that do not qualify for initial claims, compared to 342,000 in the previous period. US crude inventories also dropped for the fourth consecutive week as the winter storms impacted production, while housing starts sank 6.0% on the month, although building permits soared 10.4%.

The release of the January FOMC minutes highlighted a considerably stronger outlook for 2021 relative to the December forecast. The headlines showed that monetary policy will remain accommodative, inflation was projected to moderately overshoot 2.0% some time beyond 2023, and, with interest rates at the lower bound, the Committee judged that downward risks to employment and inflation have increased. With regards to upside risks, some participants pointed to the possibility that fiscal policy could turn out to be more expansionary than anticipated.

Off the back of this, Goldman's ramped up its US GDP growth to 7.0% in 2021, forecast the unemployment rate will fall to 4.1%, and core PCE inflation will rise to 1.85% by year-end 2021. Interestingly, they are also predicting that 50.0% of the population is expected to be vaccinated by May 2021.

In the Euro zone, inflationary pressures remain subdued after CPI increased a modest 0.1% on the month against a contraction of 0.2% for the year, while the producer price index showed a similar trend with a 2.2% jump on the

month, with a 3.0% shrinkage on the year. Eurozone February consumer confidence also fell to -14.8 versus the expected -15.0.

This was backed up by the January minutes from the ECB meeting, which highlighted policymakers concerns that headline inflation was at a very low level and that it continued to be 'distant' from the ECB target, while a further appreciation of the euro posed risk to the inflation outlook.

There was some good news with the positive Australian January jobs report, 29,100 workers were added to the workforce against an expected 30,000, but in amongst the detail, 59,000 full-time workers were added while part-time workers decreased by 29,800. This saw the unemployment rate fall to 6.4%, against the 6.5% expected, with a solid participation rate at 66.1%.

What did the markets make of all this?

International equities fell 0.5-1.0% to their lowest levels in two weeks and bond yields edged higher as concern grew that rising borrowing costs could sap a rally that's driven equity values to historic highs.

The 10-year US yield flatlined at 1.28% although the bund yield jumped to -0.37%. The NZD/USD and AUD/USD were both steady at 0.7210 and 0.7765 respectively.



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