

Market Alert

Wednesday 24 February 2021

CURRENCIES	Spot	6mths
NZD/USD	0.7339	-0.0006
NZD/AUD	0.9262	-0.0011
NZD/JPY	77.08	-0.21
NZD/EUR	0.6032	-0.0028
NZD/GBP	0.5248	-0.0007
NZD/CNH	4.7453	0.0578
AUD/USD	0.7924	0.0003
AUD/EUR	0.6513	-0.0022
EUR/USD	1.2167	0.0046
USD/CNH	7.1227	0.0843
GBP/USD	1.4081	0.0007
EUR/GBP	0.8641	0.0028

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.10%
90 day bills	0.27%	0.02%
2 year swap	0.39%	0.13%
10 year Govt	1.64%	1.60%

Central bank quote fest!

Fed Chair, Jerome Powell, was asked the key question, and he basically endorsed the Treasury market's price action, stating "rates are moving up due to higher growth expectations. The move in yields reflects more confidence in the economy."

Then, re-affirming that US rates aren't going anywhere anytime soon, he added "the economy is a long way from Fed's employment and inflation goals, and it is likely to take some time for substantial further progress to be achieved." Finally he added the Fed will update it's 2021 GDP growth forecast to around 6% from 4.2%.

Simply put, the Fed are comfortable with yields rising as the growth outlook improves on expectations of fiscal stimulus and an economic re-opening.

Currently there is scant evidence that inflation expectations are adding to this, with the implication being that it could have a negative effect on equities. Within this perception, the real question becomes whether tapering will be an endorsement or an impediment?

We also had a few comments from other central bankers. First up was Fed member Robert Kaplan, who was singing from the same hymn sheet as the boss with "if the US continues to recover, rising bond yields would be an encouraging sign. The US can finance debt as long as the dollar is the world reserve currency."

Then Bank of England executive, Gertjan Vlieghe, said "we may not see rates similar to pre-financial crisis levels in my lifetime. The surge in share prices is very much a US-specific phenomenon." Finally, the ECB's Francois Villeroy stated there is "no risk of lasting pickup in inflation. Financing conditions remain very accommodative. There is no risk of overheating."

New Zealand Q4 retail sales ex-inflation came in at -2.7% against an expected -0.5%. And speaking of New Zealand, drawings to date of the Reserve Bank of New Zealand ("RBNZ")'s NZD28 billion Funding for Lending Programme have been directly applied against reduced mortgage rates to fuel the housing market, although it has been revealed

that the Treasury advised Finance Minister, Grant Robertson, to pressure the RBNZ into attaching conditions to direct the funds to 'targeted' or 'productive' parts of the economy i.e. businesses!

Australian exports dropped in January from December, declining AUD3,047 million (-9%) to AUD32,126 million. Mind you, imports declined AUD2,626 million (-10%) to AUD23,372 million. All up, it was still pretty good for Australia with a trade surplus of AUD8,754 million.

US equities are lower amid a further slump in tech shares on concerns that higher yields will see a rebalancing of portfolios. Against this, European and Asian bourses were mixed, as were commodities. Interestingly, international 10-year bond yields all rose, with the German bund up 2 pips to -0.32%, although the US treasury slipped a pip to 1.35%. The NZD and AUD remain strong across the board and are at 0.7335 and 0.7905 against the USD.

So, what will Mr Orr do?

As we've been saying all year, the RBNZ Governor has a fine line to walk this afternoon, but given Jerome Powell's comments, that higher long-end yields support a stronger economic outlook, we should get used to the extension of the New Zealand yield curve and accept it as part of our recovery.



BANCORP

BANCORP TREASURY SERVICES LIMITED

Barrington
TREASURY SERVICES

Barrington
ASSET CONSULTING



BANCORP

BANCORP CORPORATE FINANCE LIMITED

Daily Rates

Wednesday 24 February 2021

FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	75.85					CAD	0.9247	0.9984
NZD/USD	0.7339	-0.0001	-0.0003	-0.0006	-0.0014	CHF	0.6574	0.7098
NZD/AUD	0.9262	-0.0002	-0.0006	-0.0011	-0.0022	CNY	4.7449	5.1230
NZD/JPY	77.08	-0.03	-0.10	-0.21	-0.50	DKK	4.4855	4.8429
NZD/EUR	0.6032	-0.0004	-0.0014	-0.0028	-0.0060	FJD	1.4808	1.5988
NZD/GBP	0.5248	-0.0001	-0.0004	-0.0007	-0.0017	HKD	5.6902	6.1435
						KRW	815.00	879.94
AU TWI	64.80					MYR	2.9494	3.1844
AUD/USD	0.7924	0.0001	0.0002	0.0003	0.0004	NOK	6.2237	6.7196
AUD/NZD	1.0797	0.0002	0.0007	0.0013	0.0026	SEK	6.0671	6.5505
AUD/JPY	83.22	-0.01	-0.05	-0.12	-0.34	SGD	0.9696	1.0469
AUD/EUR	0.6513	-0.0003	-0.0011	-0.0022	-0.0049	TWD	20.50	22.13
AUD/GBP	0.5628	0.0000	0.0000	-0.0001	-0.0005	ZAR	10.7563	11.6133
USD Index	90.00							
EUR/USD	1.2167	0.0007	0.0023	0.0046	0.0098	EQUITIES		
USD/JPY	105.03	-0.02	-0.09	-0.19	-0.48			Index
GBP/USD	1.4081	0.0001	0.0004	0.0007	0.0019	NZX50		12,426
EUR/GBP	0.8641	0.0004	0.0014	0.0028	0.0058	ASX200		6,781
						Dow Jones		31,639
						S&P 500		3,901
						FTSE100		6,612
						DAX 30		13,950
						Nikkei		30,156
						COMMODITIES		
								USD
						Dubai Light		60.66
						Brent Crude		64.91
						Gold		1,808.70
						Silver		28.01
						CRB Index		204.18

INTEREST RATES	New Zealand		Australia	
	Borrow	Invest	Borrow	Invest
30 day bank bills	0.28%	0.24%	0.02%	0.02%
90 day bank bills	0.29%	0.25%	0.04%	0.00%
FRA 90d in 3mths	0.31%	0.28%	0.06%	0.01%
FRA 180d in 6mths	0.37%	0.34%	0.10%	0.06%
1 year swap*	0.33%	0.30%	0.05%	0.04%
2 year swap*	0.41%	0.38%	0.14%	0.13%
3 year swap*	0.58%	0.56%	0.29%	0.28%
5 year swap*	1.00%	0.98%	0.80%	0.78%
10 year swap*	1.75%	1.72%	1.70%	1.68%
10 year Govt bond		1.62%		1.60%

* Semi-annual rate resets except AUD 1,2,3 year quarterly

This document has been prepared by Bancorp Treasury Services Limited ("BTSL"). Whilst all reasonable care has been taken to ensure the facts stated are accurate and the opinions given are fair and reasonable, neither BTSL nor any of its directors, officers or employees shall in any way be responsible for the contents. No liability is assumed by BTSL, its directors, officers or employees for action taken or not taken on the basis of this document.



BANCORP
BANCORP TREASURY SERVICES LIMITED

Barrington
TREASURY SERVICES

Barrington
ASSET CONSULTING



BANCORP
BANCORP CORPORATE FINANCE LIMITED