

Market Alert

Thursday 4 February 2021

CURRENCIES	Spot	6mths
NZD/USD	0.7192	-0.0001
NZD/AUD	0.9441	-0.0010
NZD/JPY	75.55	-0.16
NZD/EUR	0.5980	-0.0024
NZD/GBP	0.5248	-0.0005
NZD/CNH	4.6458	0.0573
AUD/USD	0.7618	0.0008
AUD/EUR	0.6334	-0.0019
EUR/USD	1.2026	0.0047
USD/CNH	7.1227	0.0804
GBP/USD	1.3638	0.0012
EUR/GBP	0.8818	0.0027

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.10%
90 day bills	0.28%	0.01%
2 year swap	0.36%	0.06%
10 year Govt	1.33%	1.17%

Are inflationary pressures starting to build?

NZ produced an off-the-scale Q4 unemployment rate of 4.9% yesterday to bamboozle the nation's economists who had forecast 5.6%, but it didn't end there!

Equally impressive was the quarterly jump in average hourly earnings at 1.1%, which was in line with the previous +1.4%, and we also had strong export commodity price numbers with our 17 main commodity exports, up for a fourth consecutive month at +3.6%, to reach +4.6% for the year.

In NZD terms, the gains were not quite so strong, at +2.4% on the month and -2.2% for the year.

Fed member, James Bullard, was also discussing inflation, stating "A further rise in inflation break-evens would be welcome. Inflation expectations have recovered from 2020 lows. I see very strong US GDP growth in 2021 as the pandemic eases over the first half of the year." On a positive note, ISM Services PMI for the US increased to 58.7 in January from 57.7 in December, beating market forecasts of 56.8.

RBA Governor, Philip Lowe, speaking in Canberra, stated "There was a risk of upward pressure on AUD if (we) did not extend QE and that the cash rate will be maintained at 10 basis points for as long as is necessary. It is going to be some years before (our) goals for inflation, unemployment are achieved. We do not expect to meet our goals before 2024."

And in terms of Australian data, the final Markit Services and Composite PMIs for January (final) came out at 55.6 and 55.9, respectively. It should be noted that within the detail, the data showed a rise in employment levels for the third month in succession with business sentiment elevated. Meanwhile building approvals for December jumped +10.9% on the month against an expected 3.0% increase.

It is the second-best performing agricultural commodity price so far this year,

and, unless Chinese officials can contain a new series of infectious outbreaks of African swine fever, pork prices may continue to advance. Recently the Chinese government began auctioning pork from its national stockpiles as prices have jumped over 10%. Lean hog futures have gained nearly 12% so far this year to their highest levels since March 2020.

Argentina's government is allowing a local cash-strapped state-run oil driller and refiner to hike fuel prices at the pump despite a risk that inflation will accelerate, while Poland reiterated its threat to intervene in the currency market to weaken the zloty.

So, a little bit of a mixed bag with supportive data, but central bankers continue to warn that they will delay rate increases until inflation is consistently above target levels.

While the NZ and Australian data was supportive of their currencies, the NZD/USD, AUD/USD and EUR/USD put on very modest gains to be at 0.7195, 0.7625 and 1.2025 respectively. We also saw US 10-year yields rise for the fifth straight day to be at 1.13%. International equities were flat.

Rate cuts off the table

With local banks completely taking rate cuts off the table ... how long will it be before they start talking about hikes?



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Daily Rates

Thursday 4 February 2021

FX	Spot	FECs (mid)				Spot Mid	
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...
NZ TWI	75.10					CAD	0.9194 0.9739
NZD/USD	0.7192	0.0000	0.0000	-0.0001	-0.0002	CHF	0.6468 0.6851
NZD/AUD	0.9441	-0.0002	-0.0005	-0.0010	-0.0021	CNY	4.6473 4.9227
NZD/JPY	75.55	-0.02	-0.07	-0.16	-0.39	DKK	4.4477 4.7112
NZD/EUR	0.5980	-0.0004	-0.0012	-0.0024	-0.0052	FJD	1.4721 1.5593
NZD/GBP	0.5248	-0.0001	-0.0002	-0.0005	-0.0013	HKD	5.5747 5.9051
						KRW	801.40 848.89
AU TWI	62.70					MYR	2.9170 3.0898
AUD/USD	0.7618	0.0001	0.0004	0.0008	0.0015	NOK	6.1785 6.5447
AUD/NZD	1.0593	0.0002	0.0006	0.0012	0.0024	SEK	6.0467 6.4051
AUD/JPY	80.03	-0.01	-0.03	-0.08	-0.23	SGD	0.9589 1.0157
AUD/EUR	0.6334	-0.0003	-0.0009	-0.0019	-0.0041	TWD	20.10 21.29
AUD/GBP	0.5585	0.0000	0.0001	0.0001	-0.0001	ZAR	10.7603 11.3980
USD Index	91.17						
EUR/USD	1.2026	0.0007	0.0023	0.0047	0.0102	EQUITIES	
USD/JPY	105.06	-0.02	-0.10	-0.21	-0.50		Index
GBP/USD	1.3638	0.0002	0.0006	0.0012	0.0029	NZX50	13,091
EUR/GBP	0.8818	0.0004	0.0013	0.0027	0.0056	ASX200	6,825
						Dow Jones	30,741
						S&P 500	3,844
						FTSE100	6,508
						DAX 30	13,934
						Nikkei	28,647
						COMMODITIES	
							USD
						Dubai Light	56.90
						Brent Crude	58.59
						Gold	1,833.77
						Silver	26.74
						CRB Index	190.13

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	0.30%	0.26%	0.03%	-0.01%
FRA 90d in 3mths	0.29%	0.26%	0.05%	0.00%
FRA 180d in 6mths	0.29%	0.26%	0.05%	0.01%
1 year swap*	0.29%	0.26%	0.03%	0.02%
2 year swap*	0.38%	0.35%	0.07%	0.06%
3 year swap*	0.50%	0.48%	0.15%	0.14%
5 year swap*	0.80%	0.78%	0.46%	0.45%
10 year swap*	1.38%	1.35%	1.20%	1.18%
10 year Govt bond		1.32%		1.17%

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

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