

Market Alert

Tuesday 25 May 2021

CURRENCIES	Spot	6mths
NZD/USD	0.7217	-0.0005
NZD/AUD	0.9305	-0.0013
NZD/JPY	78.50	-0.18
NZD/EUR	0.5908	-0.0025
NZD/GBP	0.5098	-0.0005
NZD/CNH	4.6257	0.0526
AUD/USD	0.7756	0.0005
AUD/EUR	0.6349	-0.0019
EUR/USD	1.2216	0.0044
USD/CNH	6.4100	0.0775
GBP/USD	1.4158	0.0003
EUR/GBP	0.8628	0.0029

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.10%
90 day bills	0.32%	0.04%
2 year swap	0.53%	0.15%
10 year Govt	1.81%	1.70%

Inflationary chatter is all the rage

New Zealand Q1 retail sales volumes increased 2.5% for the quarter, well ahead of the expected 1.8% contraction, as the consumer kept the NZ economy afloat. Values also lifted 2.5% on a quarterly basis, suggesting no change in prices, which will highlight a lack of inflationary pressures.

Meanwhile, in the US the Chicago Fed National Activity Index fell to 0.24 in April, from March's 8-month high of 1.71, suggesting a slowdown in economic growth.

Fed Governor, Lael Brainard, Atlanta Fed President, Raphael Bostic, and St. Louis's James Bullard were all on the newswires overnight stating they would not be surprised to see bottlenecks and supply shortages push prices up as pent up customer demand is unleashed, but much of those price gains should prove temporary.

Brainard stated *"the US in the middle of an unprecedented rebound in the economy. (I'm) expecting some higher inflation readings in the near term because of basic facts."* Bostic then added that *"the US economy has been more resilient (with) demand responding quicker than supply. That has led to price increases,"* before Bullard finished with *"I expect above 2.0% inflation this year and next."*

It was a similar story in the UK where BoE policymakers pushed back against concerns that a rapid economic re-opening will lead to a damaging wave of inflation. *"The expected acceleration in prices this year will likely be temporary,"* Governor Andrew Bailey stated in his testimony to lawmakers, while deputy Jon Cunliffe added *"inflation will later return to the central bank's 2.0% target as growth slows."*

PBoC announced that it *"will maintain the exchange rate of the yuan at 'basically stable' levels (although the) trend of the exchange rate will be decided by supply and demand along with changes in international financial markets."* The NDRC, China's state planner,

then reiterating that it will not tolerate commodity price violations as it has a *"zero tolerance for commodity futures market violations,"* and that it *"will severely punish commodity monopolies."*

So, with Fed member talking down the inflationary risks, and the Chinese emphasising they are prepared to keep a tight reign on commodity prices, the financial market liked the lower interest rate status quo with equity markets up slightly, although commodities were a mixed bag with oil 3.0-3.75% higher, while wheat, iron ore and lumber all fell. The 10-year US yield is at 1.60%, the bund is at -0.14%, and the NZD and AUD both firmed.

While the Japanese Government is considering lifting its state of emergency, just in time for the Olympic games, doctors in Osaka have warned of a system collapse with beds and ventilators are running low.

The Bank of Korea has moved to set up a central bank-backed digital currency, while the Chinese vice-Premier, Liu He, announced *"China will crack down on bitcoin mining and trading."*

Coffee is steaming!

Even as grain prices retreat from their record highs to ease concerns over spiralling food inflation, one agricultural commodity that is still looking poised to 'steam ahead' is coffee after a squeeze out sell-side liquidity, leaving the market vulnerable to rallies.



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Daily Rates

Tuesday 25 May 2021

FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	75.00					CAD	0.8693	0.9342
NZD/USD	0.7217	-0.0001	-0.0002	-0.0005	-0.0014	CHF	0.6472	0.6956
NZD/AUD	0.9305	-0.0002	-0.0006	-0.0013	-0.0028	CNY	4.6267	4.9725
NZD/JPY	78.50	-0.03	-0.08	-0.18	-0.46	DKK	4.3933	4.7216
NZD/EUR	0.5908	-0.0004	-0.0012	-0.0025	-0.0056	FJD	1.4697	1.5796
NZD/GBP	0.5098	-0.0001	-0.0002	-0.0005	-0.0013	HKD	5.6040	6.0228
						KRW	810.76	871.36
AU TWI	63.90					MYR	2.9696	3.1916
AUD/USD	0.7756	0.0001	0.0003	0.0005	0.0008	NOK	6.0109	6.4602
AUD/NZD	1.0747	0.0002	0.0007	0.0015	0.0032	SEK	5.9988	6.4471
AUD/JPY	84.37	-0.01	-0.03	-0.08	-0.25	SGD	0.9584	1.0300
AUD/EUR	0.6349	-0.0003	-0.0009	-0.0019	-0.0041	TWD	20.15	21.66
AUD/GBP	0.5478	0.0001	0.0001	0.0002	0.0002	ZAR	10.0520	10.8033
USD Index	89.84							
EUR/USD	1.2216	0.0007	0.0022	0.0044	0.0092	EQUITIES		
USD/JPY	108.78	-0.02	-0.08	-0.17	-0.42			Index
GBP/USD	1.4158	0.0000	0.0002	0.0003	0.0008	NZX50		12,449
EUR/GBP	0.8628	0.0005	0.0014	0.0029	0.0060	ASX200		7,046
						Dow Jones		34,433
INTEREST RATES						S&P 500		4,206
		New Zealand		Australia		FTSE100		7,052
		Borrow	Invest	Borrow	Invest	DAX 30		15,438
30 day bank bills		0.30%	0.26%	0.02%	0.02%	Nikkei		28,365
90 day bank bills		0.34%	0.30%	0.06%	0.02%	COMMODITIES		
FRA 90d in 3mths		0.34%	0.31%	0.07%	0.04%			USD
FRA 180d in 6mths		0.44%	0.41%	0.13%	0.11%	Dubai Light		65.70
1 year swap		0.38%	0.35%	0.07%	0.06%	Brent Crude		68.48
2 year swap		0.54%	0.52%	0.16%	0.15%	Gold		1,882.38
3 year swap		0.76%	0.74%	0.33%	0.32%	Silver		27.77
5 year swap		1.20%	1.18%	0.81%	0.76%	CRB Index		215.69
10 year swap		1.94%	1.91%	1.69%	1.68%			
10 year Govt bond			1.80%		1.70%			

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