

Market Alert

Friday 28 May 2021

CURRENCIES	Spot	6mths
NZD/USD	0.7299	-0.0005
NZD/AUD	0.9423	-0.0012
NZD/JPY	80.13	-0.17
NZD/EUR	0.5982	-0.0025
NZD/GBP	0.5138	-0.0004
NZD/CNH	4.6507	0.0505
AUD/USD	0.7746	0.0005
AUD/EUR	0.6349	-0.0018
EUR/USD	1.2200	0.0042
USD/CNH	6.3722	0.0738
GBP/USD	1.4207	0.0001
EUR/GBP	0.8588	0.0029

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.10%
90 day bills	0.33%	0.04%
2 year swap	0.63%	0.17%
10 year Govt	1.89%	1.63%

"I might still cut though!"

As is his wont, Governor Orr tends to spend most days following an MPC meeting discussing lower interest rates, and yesterday was no exception as he stated, "given the uncertainties to both the upside to our forecasts and downside, we remain willing to shift the OCR up or down. We just see our central projection of keeping it where it is, and with a bias to having to increase it sometime late next year. The Bank is willing to lower interest rates if necessary. If there was a negative economic shock, we will increase monetary policy easing."

There was a fair bit of US data overnight, with Q1 GDP hitting 6.4% matching the advance estimate and following on from the previous quarters 4.3% expansion. Perhaps unsurprisingly, upward revisions to consumer spending, imports and fixed investments were offset by downward revisions to exports and private inventory investment. Meanwhile, initial claims dropped to 406k last week, which was below market expectations of 425k, while continuing claims eased by almost 100k to 3,642k. Against this positive news, new orders for US manufactured durable goods fell 1.3% in April although the March number was revised up to +1.3%.

In other data releases, Australian private capex for Q1 increased +6.3% on the quarter, which smashed the +2.0% forecast, while the strong Chinese industrial profits carried the warning, "the profitability of some consumer goods industries has not yet recovered to pre-epidemic levels; coupled with the high prices of bulk commodities, this has increased the pressure on the production and operation of midstream and downstream industries."

Speaking of China and commodities, China's Banking and Insurance Regulatory Commission ("CBIRC") has banned lenders (banks) from selling investment products linked to commodities futures to retail buyers as, "banks also don't have enough expertise to run such products properly." Ouch! Then, in another commodity move, China's state

planner has asked the state-owned oil companies to report on their usage of imported crude. Finally, China and the US officials have agreed that a resumption of trade dialogue after a 9-month hiatus is important although there are some "very large challenges."

Finally, Fed member 'Bob' Kaplan stated, "it would be wise to take the foot off the brakes sooner vs later."

European and US stocks pared their gains after the strong US data as focus switched to tomorrow's PCE deflator number. As the Fed's preferred inflation measure, its forecast to jump to 2.9% which may force a re-think at the Fed. This saw the 10-year Treasury firm to 1.60% although the NZD and AUD both flatlined.

Simply, there is too much cash!

Demand for Fed's Reverse Repo Programme ("RRP") has surged to a record USD485.3 billion. The RRP allows counterparties such as banks and money-market funds to place cash with the central bank in exchange for accepting securities as collateral. But even though the rate on the facility is 0.0%, demand has been increasing as a flood of cash overwhelms US funding markets. The implications of this massive build-up of dollars is adding fuel to the debate about when, and how quickly, the Fed will dial-back its QE programme.



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Daily Rates

Friday 28 May 2021

FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	75.78					CAD	0.8804	0.9344
NZD/USD	0.7299	-0.0001	-0.0002	-0.0005	-0.0017	CHF	0.6545	0.6946
NZD/AUD	0.9423	-0.0002	-0.0006	-0.0012	-0.0030	CNY	4.6524	4.9375
NZD/JPY	80.13	-0.02	-0.08	-0.17	-0.47	DKK	4.4487	4.7213
NZD/EUR	0.5982	-0.0004	-0.0012	-0.0025	-0.0057	FJD	1.4816	1.5724
NZD/GBP	0.5138	-0.0001	-0.0002	-0.0004	-0.0013	HKD	5.6641	6.0112
						KRW	816.23	866.26
AU TWI	63.70					MYR	3.0171	3.2020
AUD/USD	0.7746	0.0001	0.0003	0.0005	0.0007	NOK	6.0884	6.4616
AUD/NZD	1.0613	0.0002	0.0007	0.0014	0.0033	SEK	6.0345	6.4043
AUD/JPY	85.04	-0.01	-0.03	-0.07	-0.24	SGD	0.9663	1.0255
AUD/EUR	0.6349	-0.0003	-0.0009	-0.0018	-0.0041	TWD	20.28	21.52
AUD/GBP	0.5452	0.0001	0.0002	0.0003	0.0004	ZAR	10.0382	10.6534
USD Index	89.97							
EUR/USD	1.2200	0.0007	0.0021	0.0042	0.0089	EQUITIES		
USD/JPY	109.79	-0.03	-0.08	-0.16	-0.40		Index	
GBP/USD	1.4207	0.0001	0.0001	0.0001	0.0003	NZX50	12,243	
EUR/GBP	0.8588	0.0005	0.0014	0.0029	0.0061	ASX200	7,095	
						Dow Jones	34,484	
						S&P 500	4,202	
						FTSE100	7,020	
						DAX 30	15,407	
						Nikkei	28,549	
						COMMODITIES		
							USD	
						Dubai Light	66.17	
						Brent Crude	69.36	
						Gold	1,898.13	
						Silver	27.86	
						CRB Index	218.68	

INTEREST RATES	New Zealand		Australia	
	Borrow	Invest	Borrow	Invest
30 day bank bills	0.30%	0.26%	0.02%	0.02%
90 day bank bills	0.35%	0.31%	0.06%	0.02%
FRA 90d in 3mths	0.36%	0.33%	0.07%	0.04%
FRA 180d in 6mths	0.46%	0.43%	0.13%	0.11%
1 year swap	0.40%	0.38%	0.07%	0.06%
2 year swap	0.64%	0.61%	0.17%	0.16%
3 year swap	0.93%	0.91%	0.35%	0.33%
5 year swap	1.40%	1.38%	0.80%	0.78%
10 year swap	2.04%	2.02%	1.68%	1.66%
10 year Govt bond		1.87%		1.63%

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