

Market Alert

Thursday 17 June 2021

CURRENCIES	Spot	6mths
NZD/USD	0.7058	-0.0005
NZD/AUD	0.9270	-0.0013
NZD/JPY	78.08	-0.17
NZD/EUR	0.5878	-0.0025
NZD/GBP	0.5042	-0.0004
NZD/CNH	4.5444	0.0533
AUD/USD	0.7615	0.0005
AUD/EUR	0.6343	-0.0019
EUR/USD	1.2006	0.0044
USD/CNH	6.4383	0.0798
GBP/USD	1.3997	0.0003
EUR/GBP	0.8577	0.0029

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.10%
90 day bills	0.32%	0.02%
2 year swap	0.54%	0.16%
10 year Govt	1.66%	1.55%

Fed spanner

Following on from the subdued nature of the RBA's minutes, the Federal Reserve sprang into action this morning, and if it was their intention to create some volatility, then they certainly succeeded!

While the Fed left its target range unchanged at 0-0.25%, policymakers signalled that rate hikes could come as soon as 2023 after the inclusion of the so-called 'dot plot' of expectations suggested there will be two hikes in 2023.

In regard to its QE programme, the central bank gave no indication as to when it would begin cutting back on its bond-buying program and it will continue

to purchase bonds at its current rate of USD120 billion per month. Furthermore, the central bank now forecasts US GDP to grow at 7.0% and PCE inflation to reach 3.4% in 2021, although price pressures are expected to slow to 2.1% in 2022.

So, while the markets took the 'dot plots' in their projections, the post meeting comments were erringly similar to those of the RBNZ's after Chair, Jerome Powell, stated "*the dots are not a great forecaster of rate moves. Dots to be taken with a big grain of salt.*" The only thing missing from an RBNZ comparison was a "*who knows where we'll be by then*" comment! In terms of potential discussions on tapering, he then added "*at the next meeting, we will begin meeting-by-meeting to assess that progress and talk about what we're seeing. You can think of this meeting as the 'talking about talking about meeting.'*"

So, to summarise, Mr Powell was broadly more hawkish than most, and ourselves, had expected at this juncture given the dot plot projections. In addition, the mention in the statement about continuing QE suggests they are now starting to think about starting the discussion on reducing purchases.

While European and Asia markets were unchanged ahead of the Fed, the higher inflation forecasts for this calendar year and the suggestion of hikes in 2023 saw US equity markets ease 0.20%-0.50%. As with the RBNZ, the local fixed income markets took the dot plots at face value which

saw the 10 year Treasury yield jump to 1.56%, which compares to current levels of 1.67% in New Zealand and 1.55% in Australia. The moves were mostly felt in the currency markets where the NZD and AUD, which both broke lower as the USD rallied on the news. To be fair, both currencies had been flat prior to the meeting, but upon the release of the statement, the USD immediately gained +0.8% which saw the NZD and AUD fall to lows of 0.7048 and 0.7608 before staging a modest recovery to existing levels.

In other news

The New Zealand government has given 'in principle' approval to add debt-to-income ratios ("DTI") to the RBNZ's armoury. According to the RBNZ, nearly 14.0% of lending in March was at a DTI of six or more.

UK CPI climbed to 2.1% in the year to May, up from April's 1.5%.

The Chinese government announced there was no leak at its Taishan nuclear power plant despite increased levels of radioactivity, while President Biden and President Putin agreed to hold arms control and cyber-security talks.



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Daily Rates

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FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	73.88					CAD	0.8650	0.9332
NZD/USD	0.7058	-0.0001	-0.0002	-0.0005	-0.0014	CHF	0.6408	0.6913
NZD/AUD	0.9270	-0.0002	-0.0007	-0.0013	-0.0028	CNY	4.5670	4.9269
NZD/JPY	78.08	-0.03	-0.08	-0.17	-0.45	DKK	4.3726	4.7172
NZD/EUR	0.5878	-0.0004	-0.0013	-0.0025	-0.0056	FJD	1.4450	1.5588
NZD/GBP	0.5042	-0.0001	-0.0002	-0.0004	-0.0012	HKD	5.4792	5.9109
						KRW	799.45	862.45
AU TWI	63.50					MYR	2.9397	3.1713
AUD/USD	0.7615	0.0001	0.0003	0.0005	0.0009	NOK	5.9879	6.4598
AUD/NZD	1.0788	0.0003	0.0008	0.0015	0.0033	SEK	5.9681	6.4384
AUD/JPY	84.25	-0.01	-0.03	-0.07	-0.23	SGD	0.9429	1.0172
AUD/EUR	0.6343	-0.0003	-0.0009	-0.0019	-0.0041	TWD	19.52	21.06
AUD/GBP	0.5440	0.0000	0.0001	0.0003	0.0004	ZAR	9.8890	10.6683
USD Index	91.17							
EUR/USD	1.2006	0.0007	0.0022	0.0044	0.0092	EQUITIES		
USD/JPY	110.64	-0.03	-0.09	-0.17	-0.43			Index
GBP/USD	1.3997	0.0001	0.0002	0.0003	0.0006	NZX50		12,582
EUR/GBP	0.8577	0.0005	0.0015	0.0029	0.0062	ASX200		7,386
						Dow Jones		34,036
						S&P 500		4,231
						FTSE100		7,185
						DAX 30		15,711
						Nikkei		29,291
						COMMODITIES		
								USD
						Dubai Light		72.03
						Brent Crude		74.11
						Gold		1,827.80
						Silver		27.27
						CRB Index		223.35

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	0.34%	0.30%	0.04%	0.00%
FRA 90d in 3mths	0.35%	0.32%	0.05%	0.02%
FRA 180d in 6mths	0.40%	0.37%	0.11%	0.10%
1 year swap	0.39%	0.37%	0.06%	0.04%
2 year swap	0.55%	0.53%	0.17%	0.15%
3 year swap	0.79%	0.76%	0.33%	0.32%
5 year swap	1.21%	1.18%	0.79%	0.73%
10 year swap	1.84%	1.82%	1.65%	1.64%
10 year Govt bond		1.64%		1.55%

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