

Market Alert

Wednesday 2 June 2021

CURRENCIES	Spot	6mths
NZD/USD	0.7252	-0.0005
NZD/AUD	0.9352	-0.0012
NZD/JPY	79.39	-0.16
NZD/EUR	0.5935	-0.0025
NZD/GBP	0.5125	-0.0004
NZD/CNH	4.6286	0.0492
AUD/USD	0.7754	0.0004
AUD/EUR	0.6345	-0.0018
EUR/USD	1.2220	0.0043
USD/CNH	6.3827	0.0721
GBP/USD	1.4151	0.0001
EUR/GBP	0.8636	0.0030

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.10%
90 day bills	0.32%	0.03%
2 year swap	0.57%	0.17%
10 year Govt	1.74%	1.69%

A tale of three PMIs

The US manufacturing PMI rose to 61.2 in May from 60.7 in April, to beat forecasts of 60.9. New orders and a backlog of orders accelerated while employment was at the lowest level since November and price pressures remained elevated. In a familiar story, companies are struggling to fulfil demand due to the hiring and retaining of labour.

The Caixin Chinese general manufacturing PMI firmed to 52.0 in May against April's 51.9. New orders continued to increase, export orders grew to a 6 month high, and output continued to rise, although input cost inflation hit its highest since

December 2016 while selling prices went up the most in over a decade.

Meanwhile, the IHS Markit Australia manufacturing PMI jumped to a record 60.4 in May from 59.7 in April. This saw manufacturing growth accelerate to its highest level since May 2016 as the recovery from the pandemic boosted business confidence and demand, but supply constraints continued to feature strongly, which contributed to a record rise in input costs.

In other Australia releases which will keep the RBA on their toes, house prices for May were up +2.3% on the month following on from April's +1.8%, while April building approvals fell -8.6%, which was better than the forecast -10.0% decline after March's +17.4% gains.

In other Chinese news, steel futures dropped after local government officials in Tangshan, China's key steel-making hub, indicated it may ease production and emission curbs to help cool a sizzling rally, while in New Zealand, building permits in April increased +4.8%, to cement in March's +17.9% gains.

So, what did all of these PMIs ultimately mean? The takeout is, quite simply, that while global manufacturing data is topping estimates, it is struggling to keep up with demand because of supply shortages and labour constraints with inflationary pressures starting to build in the pipeline. These balanced risks to the economic outlook saw equity and FX

markets trade flat, while yields firmed a touch with the US 10 year at 1.61%.

The RBA in a nutshell

The RBA played their monetary meeting with a straight bat ... once again! The cash rate and 3 year yield targets were left at 0.10%, while the statement repeated the guidance that any rate hike needs inflation to be back within the target and wages growth to take off as the "RBA will not increase the cash rate until actual inflation is sustainably within the 2 to 3 per cent target range. This is unlikely to be until 2024 at the earliest."

There were a few warnings for the housing market with "Monitoring housing lending carefully. Monitoring housing borrowing trends carefully" and that it is, "important that lending standards are maintained."

Finally, in reference to the latest lockdown, it noted "an important ongoing source of uncertainty is the possibility of significant outbreaks of the virus, although this should diminish as more of the population is vaccinated."

The AUD weakened post the release but has recovered those losses, swap rates were largely unchanged with a little steepening bias, while the 10 year Government bond firmed to 1.70%.



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Daily Rates

Wednesday 2 June 2021

FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	75.21					CAD	0.8753	0.9359
NZD/USD	0.7252	0.0000	-0.0002	-0.0005	-0.0015	CHF	0.6504	0.6954
NZD/AUD	0.9352	-0.0002	-0.0006	-0.0012	-0.0027	CNY	4.6317	4.9526
NZD/JPY	79.39	-0.02	-0.08	-0.16	-0.44	DKK	4.4129	4.7186
NZD/EUR	0.5935	-0.0004	-0.0012	-0.0025	-0.0056	FJD	1.4727	1.5748
NZD/GBP	0.5125	0.0000	-0.0002	-0.0004	-0.0011	HKD	5.6265	6.0164
						KRW	803.49	859.16
AU TWI	63.60					MYR	2.9998	3.2076
AUD/USD	0.7754	0.0001	0.0003	0.0004	0.0006	NOK	6.0283	6.4459
AUD/NZD	1.0693	0.0002	0.0007	0.0013	0.0031	SEK	5.9970	6.4125
AUD/JPY	84.89	-0.01	-0.03	-0.07	-0.22	SGD	0.9592	1.0257
AUD/EUR	0.6345	-0.0003	-0.0009	-0.0018	-0.0041	TWD	20.01	21.40
AUD/GBP	0.5480	0.0001	0.0002	0.0003	0.0004	ZAR	9.9804	10.6719
USD Index	89.88							
EUR/USD	1.2220	0.0008	0.0022	0.0043	0.0089	EQUITIES		
USD/JPY	109.48	-0.03	-0.08	-0.15	-0.38		Index	
GBP/USD	1.4151	0.0001	0.0001	0.0001	0.0002	NZX50	12,462	
EUR/GBP	0.8636	0.0005	0.0015	0.0030	0.0062	ASX200	7,143	
						Dow Jones	34,576	
						S&P 500	4,204	
						FTSE100	7,080	
						DAX 30	15,567	
						Nikkei	28,814	
						COMMODITIES		
							USD	
						Dubai Light	68.01	
						Brent Crude	70.53	
						Gold	1,899.29	
						Silver	27.83	
						CRB Index	221.52	

INTEREST RATES	New Zealand		Australia	
	Borrow	Invest	Borrow	Invest
30 day bank bills	0.29%	0.25%	0.02%	0.02%
90 day bank bills	0.34%	0.30%	0.05%	0.01%
FRA 90d in 3mths	0.34%	0.31%	0.06%	0.03%
FRA 180d in 6mths	0.44%	0.41%	0.12%	0.10%
1 year swap	0.37%	0.35%	0.06%	0.05%
2 year swap	0.58%	0.56%	0.18%	0.17%
3 year swap	0.84%	0.82%	0.37%	0.36%
5 year swap	1.28%	1.26%	0.86%	0.84%
10 year swap	1.98%	1.96%	1.75%	1.74%
10 year Govt bond		1.72%		1.69%

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