

# Market Alert

Thursday 3 June 2021

| CURRENCIES | Spot   | 6mths   |
|------------|--------|---------|
| NZD/USD    | 0.7237 | -0.0005 |
| NZD/AUD    | 0.9332 | -0.0012 |
| NZD/JPY    | 79.28  | -0.17   |
| NZD/EUR    | 0.5925 | -0.0025 |
| NZD/GBP    | 0.5106 | -0.0004 |
| NZD/CNH    | 4.6182 | 0.0499  |
| AUD/USD    | 0.7755 | 0.0005  |
| AUD/EUR    | 0.6349 | -0.0019 |
| EUR/USD    | 1.2214 | 0.0044  |
| USD/CNH    | 6.3818 | 0.0734  |
| GBP/USD    | 1.4174 | 0.0002  |
| EUR/GBP    | 0.8617 | 0.0030  |

  

| INT RATES    | NZ    | Australia |
|--------------|-------|-----------|
| OCR/Cash     | 0.25% | 0.10%     |
| 90 day bills | 0.32% | 0.03%     |
| 2 year swap  | 0.57% | 0.16%     |
| 10 year Govt | 1.78% | 1.68%     |

## Nothing as beige as the Beige Book

The highlight of the overnight data releases was the Fed's Beige Book report which highlighted a stronger recovery, noting "The national economy expanded at a moderate pace from early April to late May, a somewhat faster rate than the prior reporting period," while businesses are starting to take advantage of stronger demand to pass along higher input costs. "Looking forward, contacts anticipate facing cost increases and charging higher prices in coming months."

Fed member, Patrick Harker, also gave a speech stating, "GDP could grow by 7% in 2021 before moderating to 3% 2022, while inflation will be close to 3% for 2021. There will be price hikes in the short run because of supply and production issues, (although I am) less worried if prices spike and then come back down." On tapering he stated, "I think it is appropriate for us to slowly, carefully move back on our purchases at the appropriate time."

This stronger recovery was supported by the US IBD/TIPP economic optimism index which rose by 3.7% to 56.4 while, in Europe, producer prices jumped +1.0% on the month and 7.6% on the year in what was the highest producer inflation since September 2008. Energy costs, which soared 20%, were the biggest driver as, excluding energy, producer inflation was at just 3.5%.

Fitch has raised their NZD/USD forecasts to average 0.7434, citing effective containment of COVID-19 and robust policy support, which perfectly explained why the NZD is lower this morning!

Meanwhile, New Zealand's Q1 terms of trade increased 0.1% against a forecast contraction of -0.3%. This drove RBNZ Governor, Adrian Orr, to state "Strong global demand for New Zealand primary products is ensuring the economy remains resilient during the COVID-19 pandemic and is helping offset tourism losses. That's a

positive for the country. We have had strong global demand for our primary products and a strong terms of trade."

Australian Q1 GDP printed at 1.8% on the quarter and 1.1% on the year, against forecasts of 1.5% and -1.1%, with household spending up 1.2% on the quarter. The household savings ratio remains high at 11.6%, well north of the 4% to 6% level prior to the pandemic. RBA Deputy Governor, Guy Debelle, also let slip that he's "not expecting wage growth to be high enough until 2024."

Overall, markets were fairly subdued, with international equity indices slightly up, as was the USD. Bonds were flat, with the 10 year US yield at 1.59%, while commodities were slightly stronger, with gas and oil all making solid gains.

## Cheap money

Ex-king of the bond markets, Bill Gross, has returned to public profile with an editorial warning that the Federal Reserve and US Treasury are injecting money into the economy so quickly that they risk a dangerous snap-back in markets as investors withdraw once the Covid-stimulus stops. As he states, "do you think the booms in cryptocurrencies and SPACs represents 'the product of financial innovation', or the product of cheap and plentiful credit!"



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# Daily Rates

Thursday 3 June 2021

| FX        | Spot   | FECs (mid) |         |         |         | Spot Mid           |         |              |
|-----------|--------|------------|---------|---------|---------|--------------------|---------|--------------|
|           | Mid    | 1mth       | 3mths   | 6mths   | 12mths  | NZD/...            | AUD/... |              |
| NZ TWI    | 75.05  |            |         |         |         | CAD                | 0.8707  | 0.9330       |
| NZD/USD   | 0.7237 | -0.0001    | -0.0002 | -0.0005 | -0.0015 | CHF                | 0.6497  | 0.6962       |
| NZD/AUD   | 0.9332 | -0.0002    | -0.0007 | -0.0012 | -0.0028 | CNY                | 4.6234  | 4.9544       |
| NZD/JPY   | 79.28  | -0.03      | -0.08   | -0.17   | -0.45   | DKK                | 4.4061  | 4.7215       |
| NZD/EUR   | 0.5925 | -0.0004    | -0.0013 | -0.0025 | -0.0057 | FJD                | 1.4690  | 1.5741       |
| NZD/GBP   | 0.5106 | -0.0001    | -0.0002 | -0.0004 | -0.0012 | HKD                | 5.6145  | 6.0164       |
|           |        |            |         |         |         | KRW                | 804.01  | 861.57       |
| AU TWI    | 63.70  |            |         |         |         | MYR                | 2.9810  | 3.1943       |
| AUD/USD   | 0.7755 | 0.0001     | 0.0003  | 0.0005  | 0.0007  | NOK                | 6.0039  | 6.4336       |
| AUD/NZD   | 1.0716 | 0.0003     | 0.0008  | 0.0014  | 0.0032  | SEK                | 5.9776  | 6.4055       |
| AUD/JPY   | 84.96  | -0.01      | -0.03   | -0.07   | -0.24   | SGD                | 0.9570  | 1.0255       |
| AUD/EUR   | 0.6349 | -0.0003    | -0.0009 | -0.0019 | -0.0042 | TWD                | 20.03   | 21.47        |
| AUD/GBP   | 0.5471 | 0.0001     | 0.0002  | 0.0003  | 0.0004  | ZAR                | 9.7835  | 10.4838      |
| USD Index | 89.90  |            |         |         |         |                    |         |              |
| EUR/USD   | 1.2214 | 0.0008     | 0.0023  | 0.0044  | 0.0092  | <b>EQUITIES</b>    |         |              |
| USD/JPY   | 109.56 | -0.03      | -0.08   | -0.16   | -0.40   |                    |         | <b>Index</b> |
| GBP/USD   | 1.4174 | 0.0001     | 0.0001  | 0.0002  | 0.0003  | NZX50              |         | 12,440       |
| EUR/GBP   | 0.8617 | 0.0005     | 0.0015  | 0.0030  | 0.0063  | ASX200             |         | 7,218        |
|           |        |            |         |         |         | Dow Jones          |         | 34,575       |
|           |        |            |         |         |         | S&P 500            |         | 4,203        |
|           |        |            |         |         |         | FTSE100            |         | 7,108        |
|           |        |            |         |         |         | DAX 30             |         | 15,603       |
|           |        |            |         |         |         | Nikkei             |         | 28,946       |
|           |        |            |         |         |         |                    |         |              |
|           |        |            |         |         |         | <b>COMMODITIES</b> |         |              |
|           |        |            |         |         |         |                    |         | <b>USD</b>   |
|           |        |            |         |         |         | Dubai Light        |         | 68.45        |
|           |        |            |         |         |         | Brent Crude        |         | 71.26        |
|           |        |            |         |         |         | Gold               |         | 1,908.12     |
|           |        |            |         |         |         | Silver             |         | 28.16        |
|           |        |            |         |         |         | CRB Index          |         | 222.41       |

  

| 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%  | 0.05%     | 0.02%  |
| FRA 180d in 6mths | 0.44%       | 0.41%  | 0.11%     | 0.09%  |
| 1 year swap       | 0.37%       | 0.35%  | 0.06%     | 0.04%  |
| 2 year swap       | 0.58%       | 0.56%  | 0.16%     | 0.16%  |
| 3 year swap       | 0.84%       | 0.82%  | 0.35%     | 0.34%  |
| 5 year swap       | 1.29%       | 1.27%  | 0.86%     | 0.79%  |
| 10 year swap      | 1.99%       | 1.97%  | 1.71%     | 1.69%  |
| 10 year Govt bond |             | 1.76%  |           | 1.68%  |

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