

# Market Alert

Friday 23 July 2021

CURRENCIES	Spot	6mths
NZD/USD	0.6978	-0.0012
NZD/AUD	0.9450	-0.0025
NZD/JPY	76.83	-0.29
NZD/EUR	0.5926	-0.0034
NZD/GBP	0.5069	-0.0012
NZD/CNH	4.5171	0.0539
AUD/USD	0.7384	0.0006
AUD/EUR	0.6271	-0.0020
EUR/USD	1.1775	0.0048
USD/CNH	6.4738	0.0888
GBP/USD	1.3768	0.0009
EUR/GBP	0.8552	0.0030

  

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.10%
90 day bills	0.46%	0.03%
2 year swap	1.03%	0.22%
10 year Govt	1.65%	1.19%

## It's all about the ECB

The ECB left interest rates unchanged overnight with its standard rhetoric, and while they had signalled the change in its forward guidance, the markets welcomed the fact that they will accept an overshoot in inflation above 2.0%. The ECB promised to keep rates lower for longer, ensuring a more accommodative policy stance should inflation pressures push higher in the months ahead.

Interestingly, one of the key issues with the new ECB framework is its distinction with the Feds. The ECB statement pegs the future level of interest rates to

forecast/projected inflation, which is in contrast to the Fed's framework that emphasizes outcomes.

At the post meeting Q&A session, Christine Lagarde, stated *"we want to see at least 2.0% inflation well ahead of our projection horizon. We want durable 2.0% inflation. It can oscillate a bit. Inflation cannot be below 2.0% for rates to rise. No one wants to tighten prematurely. Capex is picking up, (which is) a sign of optimism."*

PEPP wasn't discussed, and members, Jens Weidmann and Pierre Wunsch, opposed the new guidance as they objected to the length of the commitment and the lack of clarity, while some of the members wanted to include Asset Purchase Programme ("APP") guidance tied to 'at least' 2.0% rather than just a flat 2.0%.

There was also a lengthy discussion held on whether an inflation overshoot would be 'incidental or intentional'. Finally, in one of the strangest lines we've ever seen from a central bank, *"a third policymaker, who also voiced significant objections, had to leave the meeting early and was not present at the final tally, one of the sources added."*

In actual overnight data, Eurozone July consumer confidence fell -4.4% against an expected -2.5%, while US initial jobless claims increased to 419,000 from the previous weeks 368,000, which is perhaps why President Biden stated there is *"some evidence that government*

*benefits have given people an incentive not to go back to work."* Ya think? He then added *"most experts believe long term inflation is not likely to get out of hand."*

We also had the preliminary Australian trade numbers for June, which implied yet another record surplus, this time for AUD13.3 billion after exports surged 8.0% to AUD41.3 billion. And speaking of Australia, Prime Minister, Scott Morrison, and Treasurer, Josh Frydenberg, have been in touch with RBA Governor, Philip Lowe, and Deputy Governor, Guy Debelle. While we can only speculate on what may have been discussed, we would wager good money there was talk about delaying its tapering!

Overnight, the initial market reaction to the ECB was a little surprising with bunds offered and the EUR bid, although the weak initial claims number and strong Australian trade numbers eventually saw logic return. Ultimately, the USD and EUR weakened, while the AUD and NZD rallied, as did the Chinese yuan which hit a fresh 5 year high. Equities were also mildly higher, as were bonds with the US 10 year yield down to 1.26% while the bund eased to -0.43%.

## It's a hackathon

Finally, the world's most valuable oil producer, Saudi Aramco, had company data leaked from one of its contractors with a subsequent USD50 million ransom demand.



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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	74.12					CAD	0.8766	0.9277	
NZD/USD	0.6978	0.0000	-0.0004	-0.0012	-0.0039	CHF	0.6411	0.6784	
NZD/AUD	0.9450	-0.0002	-0.0009	-0.0025	-0.0062	CNY	4.5150	4.7780	
NZD/JPY	76.83	-0.02	-0.10	-0.29	-0.75	DKK	4.4077	4.6644	
NZD/EUR	0.5926	-0.0004	-0.0014	-0.0034	-0.0079	FJD	1.4501	1.5345	
NZD/GBP	0.5069	-0.0001	-0.0004	-0.0012	-0.0030	HKD	5.4222	5.7381	
						KRW	802.45	849.20	
AU TWI	61.60					MYR	2.9398	3.1111	
AUD/USD	0.7384	0.0001	0.0003	0.0006	0.0007	NOK	6.1729	6.5325	
AUD/NZD	1.0583	0.0002	0.0010	0.0028	0.0070	SEK	6.0511	6.4036	
AUD/JPY	81.31	-0.01	-0.03	-0.10	-0.26	SGD	0.9484	1.0037	
AUD/EUR	0.6271	-0.0003	-0.0009	-0.0020	-0.0043	TWD	19.51	20.65	
AUD/GBP	0.5363	0.0000	0.0001	0.0001	0.0003	ZAR	10.2484	10.8454	
USD Index	92.80								
EUR/USD	1.1775	0.0007	0.0022	0.0048	0.0093	<b>EQUITIES</b>			
USD/JPY	110.11	-0.03	-0.08	-0.23	-0.46			<b>Index</b>	
GBP/USD	1.3768	0.0001	0.0003	0.0009	0.0005	NZX50		12,721	
EUR/GBP	0.8552	0.0005	0.0014	0.0030	0.0064	ASX200		7,386	
						Dow Jones		34,823	
<b>INTEREST RATES</b>								S&P 500	4,365
		New Zealand		Australia				FTSE100	6,968
		Borrow	Invest	Borrow	Invest			DAX 30	15,515
30 day bank bills		0.34%	0.30%	0.00%	0.02%			Nikkei	27,548
90 day bank bills		0.48%	0.44%	0.05%	0.01%	<b>COMMODITIES</b>			
FRA 90d in 3mths		0.76%	0.73%	0.06%	0.03%				<b>USD</b>
FRA 180d in 6mths		1.02%	0.99%	0.14%	0.12%	Dubai Light		71.02	
1 year swap		0.81%	0.79%	0.08%	0.06%	Brent Crude		73.63	
2 year swap		1.04%	1.02%	0.23%	0.21%	Gold		1,807.19	
3 year swap		1.21%	1.19%	0.39%	0.38%	Silver		25.40	
5 year swap		1.44%	1.42%	0.74%	0.64%	CRB Index		229.92	
10 year swap		1.79%	1.77%	1.31%	1.30%				
10 year Govt bond			1.63%		1.19%				

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