

Market Alert

Thursday 29 July 2021

CURRENCIES	Spot	6mths
NZD/USD	0.6958	-0.0011
NZD/AUD	0.9435	-0.0024
NZD/JPY	76.44	-0.28
NZD/EUR	0.5873	-0.0034
NZD/GBP	0.5002	-0.0011
NZD/CNH	4.5116	0.0616
AUD/USD	0.7375	0.0007
AUD/EUR	0.6225	-0.0020
EUR/USD	1.1847	0.0049
USD/CNH	6.4854	0.0994
GBP/USD	1.3909	0.0008
EUR/GBP	0.8517	0.0030

INTRATES	NZ	Australia
OCR/Cash	0.25%	0.10%
90 day bills	0.47%	0.02%
2 year swap	1.04%	0.20%
10 year Govt	1.63%	1.15%

"We're making progress ...

... but I can't give you any idea on timing!"

It was no surprise that the Federal Reserve left interest rates unchanged, but as is the case these days, it was all about the statement and the Q&A.

The statement confirmed the USD120 billion per month QE programme will continue "until substantial further progress has been made toward its maximum employment and price stability goals" but then added a line that changed the tone with "since then, the economy has made progress toward these goals, and the Committee will continue to assess progress in coming meetings."

The Fed also announced it has established domestic and foreign repurchase agreement (repo) facilities as "these facilities will serve as backstops in money markets to support the effective implementation of monetary policy and smooth market functioning."

While the statement was hawkish, Fed Chair, Jerome Powell, sought to balance this at the Q&A with "the path of the economy continues to depend on the course of the virus. In the near term the risks to inflation are probably to the upside. Inflation has risen, largely reflecting transitory factors. If we saw signs of material and consistent rises in medium-term inflation beyond our target, we would respond. The timing of any taper will depend on incoming data, and we will provide advance notice before any changes. We have not reached 'substantial further progress yet' with some ground to cover to get there. We still also have some ground to cover on the labour market before our taper goal is reached."

In short, the labour market and inflation have made progress toward their pre-conditions for tapping, even though the COVID-19 Delta variant poses an increasing threat to growth.

Looking at the markets, risk and equities initially dipped but, with the Fed statement and the press conference both balance and weighted, it provided a degree of comfort that saw most risk instruments revert to their previous levels.

Equity and markets are flat, 10 year yields are a touch weaker with the US at 1.23% and the bund at -0.45%, while the NZD and AUD are unchanged although they hit lows of 0.6900 and 0.7317 overnight.

At the edges

The RBA Q2 CPI number produced a stellar headline rate of 3.8% on an annualised basis, which was bang-on as per expectations, but drilling down into the detail, the trimmed mean and weighted median inflation measures were much more modest at 1.6% and 1.7% respectively. This highlighted the 'base effect' with the -2.0% Q2 2020 number falling out of the calculations.

With the NSW lockdown extended, it is now expected the lockdown will drain 1.0%-2.5% from Q3 GDP, although it will bounce back sharply in Q4. This saw the Prime Minister, Scott Morrison, announce that the government will increase support payments to full and part time workers.

Reports in Chinese media continue to suggest that more fiscal support for the economy 'may' be coming this quarter! Furthermore, it has been leaked that Chinese authorities are considering levies to slow exports of steel in an attempt to curb domestic prices, which would be a negative for the AUD.



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Daily Rates

Thursday 29 July 2021

FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	73.90					CAD	0.8716	0.9238
NZD/USD	0.6958	0.0000	-0.0003	-0.0011	-0.0038	CHF	0.6333	0.6712
NZD/AUD	0.9435	-0.0002	-0.0009	-0.0024	-0.0061	CNY	4.5161	4.7868
NZD/JPY	76.44	-0.02	-0.10	-0.28	-0.72	DKK	4.3681	4.6299
NZD/EUR	0.5873	-0.0004	-0.0014	-0.0034	-0.0078	FJD	1.4527	1.5398
NZD/GBP	0.5002	-0.0001	-0.0004	-0.0011	-0.0029	HKD	5.4117	5.7361
						KRW	803.07	851.21
AU TWI	61.70					MYR	2.9437	3.1201
AUD/USD	0.7375	0.0001	0.0003	0.0007	0.0008	NOK	6.1273	6.4946
AUD/NZD	1.0599	0.0002	0.0010	0.0027	0.0069	SEK	5.9817	6.3402
AUD/JPY	81.03	-0.01	-0.03	-0.09	-0.25	SGD	0.9440	1.0006
AUD/EUR	0.6225	-0.0003	-0.0009	-0.0020	-0.0043	TWD	19.48	20.65
AUD/GBP	0.5302	0.0000	0.0001	0.0002	0.0004	ZAR	10.2436	10.8576
USD Index	92.27							
EUR/USD	1.1847	0.0007	0.0022	0.0049	0.0094	EQUITIES		
USD/JPY	109.88	-0.03	-0.08	-0.23	-0.45			Index
GBP/USD	1.3909	0.0001	0.0003	0.0008	0.0004	NZX50		12,595
EUR/GBP	0.8517	0.0005	0.0014	0.0030	0.0065	ASX200		7,379
						Dow Jones		34,931
						S&P 500		4,408
						FTSE100		7,017
						DAX 30		15,570
						Nikkei		27,582
						COMMODITIES		
								USD
						Dubai Light		72.75
						Brent Crude		74.54
						Gold		1,807.96
						Silver		24.98
						CRB Index		232.84

INTEREST RATES	New Zealand		Australia	
	Borrow	Invest	Borrow	Invest
30 day bank bills	0.35%	0.31%	0.02%	0.02%
90 day bank bills	0.49%	0.45%	0.04%	0.00%
FRA 90d in 3mths	0.74%	0.71%	0.06%	0.03%
FRA 180d in 6mths	1.03%	1.00%	0.13%	0.11%
1 year swap	0.82%	0.80%	0.07%	0.05%
2 year swap	1.05%	1.03%	0.21%	0.19%
3 year swap	1.22%	1.20%	0.38%	0.37%
5 year swap	1.44%	1.42%	0.71%	0.62%
10 year swap	1.79%	1.77%	1.30%	1.28%
10 year Govt bond		1.62%		1.15%

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