

Market Alert

Friday 26 November 2021

CURRENCIES	Spot	6mths
NZD/USD	0.6860	-0.0026
NZD/AUD	0.9546	-0.0043
NZD/JPY	79.15	-0.50
NZD/EUR	0.6120	-0.0053
NZD/GBP	0.5149	-0.0019
NZD/CNH	4.3808	0.0415
AUD/USD	0.7187	0.0005
AUD/EUR	0.6412	-0.0027
EUR/USD	1.1209	0.0055
USD/CNH	6.3878	0.0851
GBP/USD	1.3323	-0.0001
EUR/GBP	0.8413	0.0042

INT RATES	NZ	Australia
OCR/Cash	0.75%	0.10%
90 day bills	0.80%	0.05%
2 year swap	2.23%	1.00%
10 year Govt	2.58%	1.87%

Blame Thanksgiving!

The US holiday led to a very quiet session overnight, and with the Black Friday sales kicking off, maybe we shouldn't expect a great deal of volatility today either. So, let's concentrate on the central banks.

Yesterday's release of the Fed's FOMC minutes from the November meeting highlighted "the members agreed it would be appropriate to convey less certainty about the path of inflation," because, yep, inflation is their biggest issue! The minutes noted that "an increase in perceived inflation risks, and an associated upward revision in the market-implied path of the federal funds

rate, contributed to increases in Treasury yields. Demand for most consumer goods had remained strong (although) there was likely to be a drag on household spending as previous fiscal support faded (while) many business contacts had experienced a worsening of supply chain problems. The staff's inflation expectations index was little changed relative to Q2 remaining at its highest level since 2014."

Unfortunately, most members of the FOMC forecast a continuation of the status quo, as "participants judged that supply constraints would likely continue for longer than they had previously expected. Some participants highlighted the fact that price increases had become more widespread. Many participants pointed to considerations that might suggest that elevated inflation could prove more persistent."

Finally, on ending QE, it was interesting to note that while everyone was in general agreement, there were calls for an acceleration of the pace of the tapering, as the minutes showed "participants generally supported the plan to implement reductions in the pace of net purchases. Some participants preferred a somewhat faster pace of reductions. Various participants noted that the Committee should be prepared to adjust the pace of asset purchases and raise the target range for the federal funds rate sooner than currently anticipated if inflation continued to run higher than levels consistent with the Committee's objectives."

The ECB also released the minutes from their October meeting, stating it is "normal

for the latter stages of a recovery to be accompanied by lower growth. Most of the recent upward pressure on prices was coming from base effects." However, the members were quick to shoot down any stagflation implications stating that while "growth momentum was declining, it is within a still strong recovery, (and) the current outlook clearly lacked the stagnation element."

The members weren't concerned about inflation either as it was "broadly agreed inflation is expected to decline in 2022. Confidence was expressed that the effects of higher energy prices and of supply bottlenecks would be temporary, although the decline in inflation in 2022 would now take longer than previously expected. Members considered that an increase in inflation in the medium-term required higher wage growth and inflation expectations" although, "concerns were voiced that expectations regarding the future path of short term money market interest rates were difficult to reconcile with ECB's forward guidance."

Simply, "it was stressed that ECB had to reaffirm all three conditions of its forward guidance. Members concurred that the current and near term increase in inflation was driven largely by temporary factors that would fade in the medium-term."

To summarise

Equities made modest gains, commodities were weak, while bond yields and currencies were flat.



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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	73.82					CAD	0.8677 0.9090
NZD/USD	0.6860	-0.0003	-0.0009	-0.0026	-0.0076	CHF	0.6421 0.6726
NZD/AUD	0.9546	-0.0005	-0.0018	-0.0043	-0.0106	CNY	4.3797 4.5882
NZD/JPY	79.15	-0.05	-0.21	-0.50	-1.40	DKK	4.5511 4.7678
NZD/EUR	0.6412	-0.0006	-0.0025	-0.0053	-0.0132	FJD	1.4505 1.5196
NZD/GBP	0.5149	-0.0002	-0.0010	-0.0019	-0.0047	HKD	5.3482 5.6028
						KRW	816.20 855.06
AU TWI	60.90					MYR	2.9008 3.0389
AUD/USD	0.7187	0.0001	0.0004	0.0005	0.0001	NOK	6.1486 6.4413
AUD/NZD	1.0476	0.0005	0.0020	0.0047	0.0118	SEK	6.2268 6.5232
AUD/JPY	82.92	-0.01	-0.07	-0.15	-0.55	SGD	0.9387 0.9834
AUD/EUR	0.6412	-0.0003	-0.0014	-0.0027	-0.0067	TWD	19.03 19.94
AUD/GBP	0.5394	0.0000	0.0000	0.0004	0.0011	ZAR	10.9250 11.4452
USD Index	96.78					EQUITIES	
EUR/USD	1.1209	0.0007	0.0030	0.0055	0.0120		Index
USD/JPY	115.38	-0.02	-0.15	-0.29	-0.78	NZX50	12,795
GBP/USD	1.3323	0.0001	0.0008	-0.0001	-0.0027	ASX200	7,407
EUR/GBP	0.8413	0.0005	0.0018	0.0042	0.0107	Dow Jones	35,804
						S&P 500	4,701
						FTSE100	7,310
						DAX 30	15,918
						Nikkei	29,499
INTEREST RATES		New Zealand		Australia			
		Borrow	Invest	Borrow	Invest		
30 day bank bills		0.81%	0.78%	0.00%	0.02%	COMMODITIES	
90 day bank bills		0.82%	0.78%	0.07%	0.03%		USD
FRA 90d in 3mths		1.35%	1.32%	0.15%	0.12%	Dubai Light	80.19
FRA 180d in 6mths		2.15%	2.12%	0.61%	0.60%	Brent Crude	82.30
1 year swap		1.61%	1.58%	0.33%	0.33%	Gold	1,788.15
2 year swap		2.24%	2.21%	1.02%	0.98%	Silver	23.57
3 year swap		2.53%	2.51%	1.43%	1.40%	CRB Index	253.38
5 year swap		2.73%	2.71%	1.75%	1.71%		NZD
10 year swap		2.82%	2.80%	2.14%	2.14%	NZ Carbon	64.95
10 year Govt bond			2.56%		1.87%		

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