

Market Alert

Friday 5 November 2021

CURRENCIES	Spot	6mths
NZD/USD	0.7106	-0.0029
NZD/AUD	0.9603	-0.0044
NZD/JPY	80.82	-0.50
NZD/EUR	0.6150	-0.0051
NZD/GBP	0.5264	-0.0020
NZD/CNH	4.5451	0.0446
AUD/USD	0.7400	0.0003
AUD/EUR	0.6404	-0.0024
EUR/USD	1.1554	0.0049
USD/CNH	6.3965	0.0893
GBP/USD	1.3501	-0.0005
EUR/GBP	0.8558	0.0040

INT RATES	NZ	Australia
OCR/Cash	0.50%	0.10%
90 day bills	0.81%	0.05%
2 year swap	2.26%	0.80%
10 year Govt	2.60%	1.83%

Bank of England stands steady

The BoE voted 7-2 to leave interest rates unchanged at record lows of 0.10%, and by a majority of 6-3 to leave its bond-buying programme unchanged.

The central bank acknowledged that it would probably become necessary to increase interest rates at some stage over the coming months in order to maintain inflation within its 2.0% target as policymakers attempted to balance the risks of rising inflationary pressures.

CPI is expected to peak at 5.0% in April 2022 against the risks of slowing global growth and a potential upturn in UK

unemployment following the end of the furlough schemes.

The decision not to raise UK rates caught the market out to some extent with swap pricing falling 10-15 points as the curve steepened, although BoE Governor, Andrew Bailey, didn't seem overly concerned stating *"The market rate pricing was perplexing (and I'm) not surprised to see a correction in markets."*

In the US, wage pressures appear to be building as Q3 unit labour costs in the nonfarm business sector surged to an annualised rate of 8.3% against market forecasts of 7.0%, following on from Q2's downwardly revised 1.1% gain. Breaking it down, hourly compensation increased 2.9%, although productivity dropped 5.0%. These wage increases appear to show a rebalancing of the US economy, which was supported by a further fall in initial claims, which fell to a post-pandemic low as 'just' 269,000 Americans filed new unemployment claims, below market expectations of 275,000. Also, the US September trade balance eased to USD-80.9 billion.

European PPIs surged 2.7% on the month and 16.0% on the year against expectations of 2.3% and 15.4%, while the Markit composite PMIs printed in line with expectations at 54.2 and the services component was at 54.6.

The Australia September trade balance remained high at AUD12.2 billion, which was inline with expectations, as the

6.0% drop in exports was partially offset by the 2.0% fall in imports. It should be noted that the drop in iron ore prices account for a large part of the export decline. Furthermore, Q3 Australian retail sales, excluding inflation, also declined 4.4% in the quarter.

The New Zealand October commodity price index rose 2.1% in the month, following on from September's 1.5% gain, to a new record high. In local currency terms the index rose 1.7% as the NZD-TWI firmed.

Unlike the RBA, BoJ Governor, Haruhiko Kuroda, announced *"We will continue with yield curve control even after the pandemic"* while the Markit services PMI for October increased to 50.7 from 47.8.

The knock-on effect

Following on from Jerome Powell's comments about transitory inflation and the BoE surprise decision to hold rates today, bond markets have had a little think about the transitory inflation story, with yields down across the board.

At the time of writing, the 10 year Treasury bond is down 8-bps to 1.52%. This has also had a knock-on effect in the currency markets, with the NZD, AUD, and EUR off -0.50% to -0.75%.

Stay safe, enjoy the weekend, and hey, let's be careful out there!



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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	75.67					CAD	0.8856	0.9222
NZD/USD	0.7106	-0.0003	-0.0011	-0.0029	-0.0087	CHF	0.6486	0.6754
NZD/AUD	0.9603	-0.0005	-0.0020	-0.0044	-0.0110	CNY	4.5455	4.7337
NZD/JPY	80.82	-0.04	-0.22	-0.50	-1.41	DKK	4.5741	4.7634
NZD/EUR	0.6150	-0.0006	-0.0024	-0.0051	-0.0129	FJD	1.4874	1.5489
NZD/GBP	0.5264	-0.0002	-0.0010	-0.0020	-0.0050	HKD	5.5306	5.7595
						KRW	840.24	875.02
AU TWI	62.40					MYR	2.9637	3.0864
AUD/USD	0.7400	0.0001	0.0004	0.0003	-0.0006	NOK	6.0857	6.3376
AUD/NZD	1.0414	0.0005	0.0021	0.0047	0.0120	SEK	6.1063	6.3590
AUD/JPY	84.16	0.00	-0.05	-0.14	-0.51	SGD	0.9601	0.9998
AUD/EUR	0.6404	-0.0003	-0.0012	-0.0024	-0.0062	TWD	19.81	20.63
AUD/GBP	0.5481	0.0000	0.0001	0.0004	0.0011	ZAR	10.8094	11.2569
USD Index	94.34					EQUITIES		
EUR/USD	1.1554	0.0006	0.0027	0.0049	0.0104		Index	
USD/JPY	113.74	-0.02	-0.13	-0.24	-0.60	NZX50	12,944	
GBP/USD	1.3501	0.0001	0.0005	-0.0005	-0.0037	ASX200	7,428	
EUR/GBP	0.8558	0.0004	0.0017	0.0040	0.0101	Dow Jones	36,001	
						S&P 500	4,674	
						FTSE100	7,280	
						DAX 30	16,030	
						Nikkei	29,794	
						COMMODITIES		
							USD	
						Dubai Light	81.38	
						Brent Crude	80.50	
						Gold	1,792.46	
						Silver	23.76	
						CRB Index	250.63	
							NZD	
						NZ Carbon	65.25	

INTEREST RATES	New Zealand		Australia	
	Borrow	Invest	Borrow	Invest
30 day bank bills	0.70%	0.68%	0.01%	0.01%
90 day bank bills	0.83%	0.80%	0.07%	0.03%
FRA 90d in 3mths	1.32%	1.29%	0.15%	0.12%
FRA 180d in 6mths	2.10%	2.10%	0.54%	0.52%
1 year swap	1.57%	1.54%	0.32%	0.25%
2 year swap	2.27%	2.25%	0.83%	0.76%
3 year swap	2.52%	2.50%	1.14%	1.09%
5 year swap	2.63%	2.61%	1.51%	1.41%
10 year swap	2.71%	2.68%	1.95%	1.93%
10 year Govt bond		2.58%		1.83%

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