

Market Alert

Thursday 16 December 2021

CURRENCIES	Spot	6mths
NZD/USD	0.6735	-0.0030
NZD/AUD	0.9452	-0.0049
NZD/JPY	76.72	-0.53
NZD/EUR	0.5983	-0.0054
NZD/GBP	0.5098	-0.0021
NZD/CNH	4.2952	0.0331
AUD/USD	0.7126	0.0005
AUD/EUR	0.6330	-0.0025
EUR/USD	1.1257	0.0053
USD/CNH	6.3779	0.0778
GBP/USD	1.3213	-0.0003
EUR/GBP	0.8520	0.0042

INT RATES	NZ	Australia
OCR/Cash	0.75%	0.10%
90 day bills	0.88%	0.06%
2 year swap	2.24%	0.91%
10 year Govt	2.35%	1.56%

Part 1

Ahead of this morning's FOMC release, markets have been quiet.

US retail trade underperformed expectations increasing just 0.3% in November against a 0.8% forecast suggesting surging inflation may be slowing domestic consumption ... that or they all did their Christmas shopping in October! Perhaps unsurprisingly, inventories rose the most since May 2011 increasing 1.2% in November, which was above expectations for a 1.1% increase. Meanwhile, the NAHB housing market index edged up 1 point to

84 in December beating market forecasts of 83 as strong demand was met with scarce inventory.

UK CPI rose to its highest level since 2011 increasing 5.1% in the year to November, from 4.2% in October and above forecasts of 4.7%, while PPI output prices also surged 9.1% in the year accelerating from October's an upwardly revised 8.6%.

Moody's is forecasting Chinese company bond defaults will continue as, "*Funding conditions for Chinese companies will remain weak in 1H 2022, after a worsening in Q3 2021. Bond defaults for Chinese companies will continue in 2022 given increased risk aversion and tightened funding access.*" Amongst the gossip, there is a piece in the Securities Times suggesting the PBoC may lower its Loan Prime Rate ahead of the holiday season.

The Swiss National Bank, the SNB, could launch a USD1 trillion sovereign wealth fund after the SNB has made USD1 trillion in foreign currency investments during its intervention campaign to halt the appreciation of the Swiss franc. It appears with the USD purchased, the SNB has acquired shares in Amazon, Google-owner Alphabet, and Starbucks!

BoJ Governor Kuroda suggested that while there's a chance CPI may reach 2.0%, he is still determined to keep cash rates ultra-low as "*what's desirable is for the economy to recover steadily and push up corporate profits,*

thereby leading to higher wages and inflation. We'll patiently maintain ultra-easy policy to achieve this at the earliest date possible."

The NZ half year update

The NZ government books are in pretty good shape after the Treasury projected a NZD2.1 billion surplus in June 2024, 3-years earlier than the May budget forecast. With NZ GDP likely to have fallen 4.1% in Q3 the Treasury is now forecasting annual GDP of just 0.8% in FY 2022, down from the 3.2% projected in the May budget, with 2023 forecast to be at +4.9%.

With a YTD current account balance of -NZD15.86 billion, or -4.6% of GDP, the deficit is expected to widen to NZD20.8 billion, or -5.7% of GDP, next year. Looking further ahead, a combination of stronger economic growth and higher inflation forecast to reach 5.1% in 2022 will underpin revenue and help the deficit narrow to just NZD831 million in 2023. Net debt is now seen peaking at 40.1% of GDP in 2023 compared with the previous forecast of 48%, before falling to 35.3% of GDP in 2024. By 2026, net debt is forecast to fall to 30.2% of GDP.

The improved outlook has allowed the government to reduce its expected borrowing by NZD31 billion over the next 4-years, which saw the NZ 10 year government yield fall to the 2.30% before it recovered in the overnight markets to the 2.36% level.



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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	72.57					CAD	0.8693	0.9196
NZD/USD	0.6735	-0.0003	-0.0011	-0.0030	-0.0081	CHF	0.6241	0.6603
NZD/AUD	0.9452	-0.0008	-0.0020	-0.0049	-0.0113	CNY	4.2886	4.5372
NZD/JPY	76.72	-0.09	-0.22	-0.53	-1.45	DKK	4.4492	4.7072
NZD/EUR	0.5983	-0.0010	-0.0024	-0.0054	-0.0134	FJD	1.4370	1.5204
NZD/GBP	0.5098	-0.0005	-0.0010	-0.0021	-0.0052	HKD	5.2547	5.5593
						KRW	798.59	844.89
AU TWI	60.10					MYR	2.8573	3.0229
AUD/USD	0.7126	0.0003	0.0003	0.0005	0.0000	NOK	6.1125	6.4669
AUD/NZD	1.0580	0.0009	0.0023	0.0055	0.0129	SEK	6.1492	6.5057
AUD/JPY	81.17	-0.02	-0.06	-0.15	-0.57	SGD	0.9220	0.9755
AUD/EUR	0.6330	-0.0005	-0.0012	-0.0025	-0.0067	TWD	18.76	19.85
AUD/GBP	0.5393	-0.0001	0.0001	0.0005	0.0010	ZAR	10.9145	11.5473
USD Index	96.63					EQUITIES		
EUR/USD	1.1257	0.0014	0.0027	0.0053	0.0120		Index	
USD/JPY	113.92	-0.08	-0.14	-0.29	-0.80	NZX50	12,869	
GBP/USD	1.3213	0.0007	0.0005	-0.0003	-0.0024	ASX200	7,327	
EUR/GBP	0.8520	0.0006	0.0017	0.0042	0.0107	Dow Jones	35,501	
						S&P 500	4,628	
						FTSE100	7,171	
						DAX 30	15,476	
						Nikkei	28,460	
INTEREST RATES		New Zealand		Australia		COMMODITIES		
		Borrow	Invest	Borrow	Invest		USD	
30 day bank bills		0.83%	0.79%	0.01%	0.03%	Dubai Light	71.11	
90 day bank bills		0.90%	0.86%	0.08%	0.04%	Brent Crude	73.49	
FRA 90d in 3mths		1.52%	1.50%	0.22%	0.19%	Gold	1,762.65	
FRA 180d in 6mths		2.24%	2.21%	0.68%	0.67%	Silver	21.51	
1 year swap		1.72%	1.70%	0.39%	0.39%	CRB Index	238.46	
2 year swap		2.25%	2.22%	0.92%	0.90%		NZD	
3 year swap		2.47%	2.44%	1.26%	1.26%	NZ Carbon	68.15	
5 year swap		2.55%	2.53%	1.57%	1.50%			
10 year swap		2.58%	2.55%	1.88%	1.88%			
10 year Govt bond			2.33%		1.56%			

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