

# Market Alert

Friday 17 December 2021

CURRENCIES	Spot	6mths
NZD/USD	0.6797	-0.0030
NZD/AUD	0.9464	-0.0047
NZD/JPY	77.27	-0.54
NZD/EUR	0.6004	-0.0055
NZD/GBP	0.5106	-0.0020
NZD/CNH	4.3356	0.0350
AUD/USD	0.7183	0.0004
AUD/EUR	0.6344	-0.0027
EUR/USD	1.1321	0.0054
USD/CNH	6.3800	0.0802
GBP/USD	1.3312	-0.0008
EUR/GBP	0.8505	0.0046

  

INT RATES	NZ	Australia
OCR/Cash	0.75%	0.10%
90 day bills	0.92%	0.07%
2 year swap	2.27%	0.95%
10 year Govt	2.33%	1.57%

## That was a surprise!

In a surprise move, the BoE voted 8-1 to increase the bank rate by 15bps to 0.25% as inflationary pressures continue to mount. The move surprised market participants, especially after the Governor's decision not to hike last month and with the imminent threat of Omicron. Simply put, "the Committee continues to judge that there are two-sided risks around the inflation outlook in the medium term, but that some modest tightening of monetary policy over the forecast period is likely to be necessary to meet the 2% inflation target sustainably."

The market is now pricing in another 25bps hike in February and projecting a 1.00% cash rate by September.

The ECB played to expectations leaving its benchmark lending and deposit rates unchanged. Although, in a classic case of taking with one hand and giving with another, the ECB committed to reducing its Pandemic Emergency Purchase Programme at a 'moderately lower pace' while doubling the pace of its existing Asset Purchase Programme to EUR40 billion in Q2 2022 and EU30 billion in Q3.

The ECB reiterated its guidance that borrowing costs won't rise until inflation reaches 2.0%, although it did raise its forecasts suggesting inflation will average 3.2% across 2022 and 1.8% in 2023 and 2024.

In the US, initial jobless claims increased by 18,000 to 206,000, housing starts surged 11.8% to an annualized rate of 1.679 million. The IHS Markit Composite PMI index easing to 56.9 in December from 57.2 in November.

Australian Treasurer Josh Frydenberg announced "the Australian economy is poised for strong growth" as he updated their GDP projections to 3.75% in FY22 and 3.5% in FY23. Unemployment is forecast to be at 4.5% in June 2022 and 4.25% in 2023, while wage inflation is anticipated to grow to 2.25% in mid-2022, 2.75% in mid-2023, and 3% in 2024.

The data was good as well after Australian employment increased 366,100 against a forecast increase of 200,000 which brought the unemployment rate down to 4.6% from the expected 5.0%.

Finally, the RBA Governor, Philip Lowe, gave a speech acknowledging that he is in no hurry to raise interest rates and that it is "not his job to target high house prices (and that) higher rates not the solution." Are you listening Mr Orr? Mr Lowe then added he "would like to see wages growing at 4% along with full employment. We are prepared to keep rates low if the domestic economy requires it (although) if other central banks are tightening it would increase the probability of us following."

The New Zealand economy suffered its second largest contraction on record after Q3 GDP fell 3.7% thanks to lockdowns in August and September.

Following on from the Fed's announcement of an accelerated taper and an increase in the dot plot projections, suggesting the Fed will hike 3 times in 2022 and a further 3 in 2023. US equity bourses eased back from their highs, while European markets broadly rallied 1.0% post the ECB meeting. In amongst this, currencies have been surprisingly steady with the NZD, AUD, and EUR all moderately higher, while 10-year yields are a touch lower with the T-bond at 1.43%.



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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	73.03					CAD	0.8688	0.9181
NZD/USD	0.6797	-0.0003	-0.0011	-0.0030	-0.0082	CHF	0.6255	0.6610
NZD/AUD	0.9464	-0.0008	-0.0020	-0.0047	-0.0109	CNY	4.3282	4.5736
NZD/JPY	77.27	-0.09	-0.23	-0.54	-1.47	DKK	4.4643	4.7173
NZD/EUR	0.6004	-0.0010	-0.0025	-0.0055	-0.0136	FJD	1.4491	1.5312
NZD/GBP	0.5106	-0.0005	-0.0009	-0.0020	-0.0050	HKD	5.3043	5.6050
						KRW	804.51	850.12
AU TWI	60.50					MYR	2.8693	3.0319
AUD/USD	0.7183	0.0002	0.0003	0.0004	-0.0004	NOK	6.1121	6.4586
AUD/NZD	1.0567	0.0008	0.0022	0.0053	0.0123	SEK	6.1485	6.4970
AUD/JPY	81.65	-0.03	-0.07	-0.17	-0.62	SGD	0.9272	0.9797
AUD/EUR	0.6344	-0.0005	-0.0013	-0.0027	-0.0071	TWD	18.95	20.03
AUD/GBP	0.5396	-0.0001	0.0002	0.0006	0.0009	ZAR	10.8629	11.4787
USD Index	96.06					<b>EQUITIES</b>		
EUR/USD	1.1321	0.0013	0.0028	0.0054	0.0122		<b>Index</b>	
USD/JPY	113.69	-0.08	-0.14	-0.29	-0.80	NZX50	12,778	
GBP/USD	1.3312	0.0006	0.0002	-0.0008	-0.0030	ASX200	7,296	
EUR/GBP	0.8505	0.0006	0.0020	0.0046	0.0111	Dow Jones	36,008	
						S&P 500	4,687	
<b>INTEREST RATES</b>		<b>New Zealand</b>		<b>Australia</b>		FTSE100	7,261	
		<b>Borrow</b>	<b>Invest</b>	<b>Borrow</b>	<b>Invest</b>	DAX 30	15,636	
30 day bank bills		0.83%	0.80%	0.01%	0.03%	Nikkei	29,066	
90 day bank bills		0.94%	0.90%	0.09%	0.05%	<b>COMMODITIES</b>		
FRA 90d in 3mths		1.56%	1.53%	0.25%	0.22%		<b>USD</b>	
FRA 180d in 6mths		2.25%	2.22%	0.78%	0.76%	Dubai Light	72.75	
1 year swap		1.76%	1.74%	0.44%	0.43%	Brent Crude	75.24	
2 year swap		2.29%	2.26%	0.97%	0.93%	Gold	1,796.12	
3 year swap		2.52%	2.49%	1.33%	1.29%	Silver	22.44	
5 year swap		2.59%	2.57%	1.67%	1.58%	CRB Index	237.92	
10 year swap		2.59%	2.57%	1.88%	1.88%		<b>NZD</b>	
10 year Govt bond			2.31%		1.57%	NZ Carbon	68.15	

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