

Market Alert

Tuesday 21 December 2021

CURRENCIES	Spot	6mths
NZD/USD	0.6719	-0.0029
NZD/AUD	0.9438	-0.0045
NZD/JPY	76.35	-0.50
NZD/EUR	0.5956	-0.0052
NZD/GBP	0.5086	-0.0017
NZD/CNH	4.2878	0.0364
AUD/USD	0.7118	0.0003
AUD/EUR	0.6310	-0.0025
EUR/USD	1.1280	0.0051
USD/CNH	6.3820	0.0818
GBP/USD	1.3211	-0.0013
EUR/GBP	0.8539	0.0046

INT RATES	NZ	Australia
OCR/Cash	0.75%	0.10%
90 day bills	0.93%	0.07%
2 year swap	2.20%	0.94%
10 year Govt	2.27%	1.54%

The BBB kicker

With President Biden's Build Back Better (BBB) legislation effectively dead in the water, after Democratic Senator Joe Manchin refused to support it, Goldman Sachs lowered their US GDP forecast for 2022 to 2.0% in Q1, 3.0% in Q2, and 2.75% in Q3, from 3.0%, 3.5% and 3.0% respectively. On the positive side, less fiscal stimulus should take at least some of the heat out of rising inflation which should lead to a slower pace of Fed rate hikes, while the odds of corporate tax increases have now declined, which Goldman's equity strategists had estimated would reduce S&P profits by 3.0%.

In a move that was more about direction rather than stimulus, the PBoC cut interest rates for the first time in 20 months lowering the 1-year Prime Lending rate from 3.85% to 3.80%, although they left the 5 year rate unchanged at 4.65%. Now that the first crack has appeared, most economists are forecasting further cuts of the 1 year LPR in 2022 as policy makers attempt to lift stimulus to reach their 5.0% growth target.

In other Chinese news, policy makers are urging large private and state owned property companies to acquire real estate projects from troubled developers to reduce the 'contamination' risk that accumulating levels of debt will destabilise the economy.

This follows on from a recent report that the PBoC and the China Banking and Insurance Regulatory Commission (CBIRC) recently issued a joint notice to financial institutions, urging them to strengthen financial support for such acquisitions.

Meanwhile, the WSJ reports that, due to the regulatory clampdowns of Chinese firms in the technology, education and property sectors, job losses are mounting, which is particularly painful as these sectors tend to have higher pay levels and helps to drive consumer buying and economic growth.

BOJ Governor, Haruhiko Kuroda, stated ahead of this week's inflation print, that he "doesn't think an expansion of BoJ's assets will undermine its ability to steer monetary

policy. (It is) too early to consider normalising monetary policy just now. We're still in a phase to patiently continue large scale monetary easing. (It is) important to secure market confidence in public finances."

The British industry's order book balance declined to +24 in December, which was down 2 points from November's record high of +26.

This sounds familiar

It may be the last trading week of the year, but the same old problems are still out there after Toyota announced it will halt operations at 6 plants in Japan for up to 5 days this month due to chip and supply chain issues.

The World Economic Forum has cancelled its annual party for the rich, (sorry, Davos Summit) due to Omicron.

A combination of the failure of President Biden's BBB legislation, Omicron, and thinning liquidity, saw equity markets melt with the S&P500 produce its largest 3 day drop since May.

Commodities, and oil in particular, were also hit hard on the Omicron concerns, although bond markets were relatively quiet with the T-bond at 1.40%. Interestingly, currency markets were a mixed bag with the NZD and USD weaker, the AUD flat, and the EUR the strongest of the currencies overnight.



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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	72.40					CAD	0.8692	0.9203
NZD/USD	0.6716	-0.0003	-0.0011	-0.0029	-0.0078	CHF	0.6189	0.6553
NZD/AUD	0.9445	-0.0006	-0.0017	-0.0045	-0.0106	CNY	4.2810	4.5325
NZD/JPY	76.33	-0.07	-0.20	-0.50	-1.40	DKK	4.4295	4.6897
NZD/EUR	0.5957	-0.0008	-0.0022	-0.0052	-0.0132	FJD	1.4340	1.5182
NZD/GBP	0.5085	-0.0003	-0.0007	-0.0017	-0.0046	HKD	5.2382	5.5460
						KRW	799.80	846.80
AU TWI	60.10					MYR	2.8367	3.0033
AUD/USD	0.7110	0.0001	0.0002	0.0003	-0.0003	NOK	6.0847	6.4422
AUD/NZD	1.0588	0.0006	0.0020	0.0050	0.0120	SEK	6.1434	6.5043
AUD/JPY	80.82	-0.02	-0.06	-0.15	-0.58	SGD	0.9184	0.9724
AUD/EUR	0.6307	-0.0005	-0.0012	-0.0025	-0.0070	TWD	18.71	19.81
AUD/GBP	0.5383	0.0000	0.0002	0.0008	0.0012	ZAR	10.6070	11.2302
USD Index	96.54					EQUITIES		
EUR/USD	1.1274	0.0010	0.0024	0.0051	0.0121		Index	
USD/JPY	113.68	-0.05	-0.11	-0.26	-0.77	NZX50	12,766	
GBP/USD	1.3208	0.0001	-0.0003	-0.0013	-0.0036	ASX200	7,292	
EUR/GBP	0.8536	0.0007	0.0020	0.0047	0.0115	Dow Jones	34,851	
						S&P 500	4,562	
						FTSE100	7,198	
						DAX 30	15,240	
						Nikkei	27,938	
						COMMODITIES		
							USD	
						Dubai Light	68.78	
						Brent Crude	71.85	
						Gold	1,790.72	
						Silver	22.27	
						CRB Index	235.81	
							NZD	
						NZ Carbon	68.50	

INTEREST RATES	New Zealand		Australia	
	Borrow	Invest	Borrow	Invest
30 day bank bills	0.82%	0.80%	0.01%	0.03%
90 day bank bills	0.97%	0.94%	0.09%	0.05%
FRA 90d in 3mths	1.53%	1.49%	0.23%	0.20%
FRA 180d in 6mths	2.19%	2.16%	0.72%	0.71%
1 year swap	1.72%	1.70%	0.42%	0.41%
2 year swap	2.22%	2.19%	0.95%	0.94%
3 year swap	2.46%	2.43%	1.32%	1.31%
5 year swap	2.55%	2.52%	1.62%	1.57%
10 year swap	2.55%	2.52%	1.96%	1.94%
10 year Govt bond		2.25%		1.54%

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