

Market Alert

Friday 28 January 2022

CURRENCIES	Spot	6mths
NZD/USD	0.6585	-0.0027
NZD/AUD	0.9360	-0.0049
NZD/JPY	75.87	-0.56
NZD/EUR	0.5908	-0.0056
NZD/GBP	0.4920	-0.0016
NZD/CNH	4.1913	0.0246
AUD/USD	0.7035	0.0008
AUD/EUR	0.6312	-0.0028
EUR/USD	1.1145	0.0061
USD/CNH	6.3666	0.0638
GBP/USD	1.3385	-0.0011
EUR/GBP	0.8327	0.0052

INT RATES	NZ	Australia
OCR/Cash	0.75%	0.10%
90 day bills	1.10%	0.08%
2 year swap	2.47%	1.24%
10 year Govt	2.67%	2.02%

Fallout from the Federal Reserve

The follow through from the Fed was similar to that of a penny dropping as equity markets fell further after Federal Reserve Chair, Jerome Powell, signalled an imminent interest rate lift off and strengthened speculation about the possibility of an unexpectedly aggressive policy tightening. The statement that the Fed also expects to begin reducing its balance-sheet also compounded the implications of the tightening cycle. While the FOMC statement was largely as anticipated, at the Q&A, Jerome Powell emphasized the upside risks to

inflation and indicated a steady pace of policy withdrawal. This flip to a more hawkish stance spooked equity markets as fears built that price pressures and receding stimulus will squeeze economic growth and company profits. The US markets started in positive territory this morning however they eventually turned negative following the markets darling, Tesla's, 8.5% supply-chain related sell-off.

Bond markets have ramped up pricing of the Fed's impending hiking cycle and are now fully pricing in five 25 bps hikes in 2022 after the better-than-expected GDP release showed the US economy grew 6.9% in Q4 2021. This was much higher than Q3's 2.3% and above market expectations of 5.5%. Growth was primarily driven by private inventory investment, exports, personal consumption expenditures, and non-residential fixed investment while, in the other data, initial jobless claims fell to 260,000. The Kansas City Fed manufacturing index jumped to 24, although pending house sales fell 3.8% on the month. The stronger-than-expected jump in growth reinforced the Fed's hawkish stance, which boosted the USD as it extended its gains for a fourth consecutive session to trade at 97.2, its highest level since July 2020.

While the USD was firming, the NZD was struggling to find any friends, even after the stronger than expected CPI print which saw inflation expand 1.4% on the quarter and 5.9% on the year, when

1.3% and 5.7% had been expected. As one of the banks stated post the release, "Inflation has some serious momentum," and while this is true, the NZD is down 1.0% against the USD this morning.

This was the same for the AUD! Despite export price jumping 3.5% on the quarter against a forecast 2.6% contraction, the fact that import prices outperformed, jumping 5.8% when 1.4% was expected, added to the AUD/USD weakness.

In other news, 2021 UK car production in 2021 fell to its lowest level since 1956. WSJ stated that Facebook is winding down its cryptocurrency venture, Diem (formerly known as Libra before its name-change). I guess simply changing your name doesn't always work does it, Mark!

If exporters aren't happy ...

in this environment, then give them a lollipop and send them on their way!

Interestingly, while the equity losses have been modest, the T-bond yield has eased back to 1.79% from yesterday's 1.86% high. The currency markets have borne the brunt of the market moves overnight. This 'out-performance' is purely related to the USD, with the NZD and the AUD underperforming against the other majors, which raises the question, 'where to from here?'

If you are in any doubt, I know your friendly treasury advisor is ready and willing to take your call!



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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	71.14					CAD	0.8380	0.8953
NZD/USD	0.6585	-0.0003	-0.0011	-0.0027	-0.0071	CHF	0.6129	0.6548
NZD/AUD	0.9360	-0.0005	-0.0021	-0.0049	-0.0112	CNY	4.1920	4.4789
NZD/JPY	75.87	-0.05	-0.22	-0.56	-1.61	DKK	4.3975	4.6984
NZD/EUR	0.5908	-0.0006	-0.0023	-0.0056	-0.0146	FJD	1.4095	1.5060
NZD/GBP	0.4920	-0.0001	-0.0006	-0.0016	-0.0047	HKD	5.1265	5.4773
						KRW	791.85	846.04
AU TWI	59.80					MYR	2.7798	2.9700
AUD/USD	0.7035	0.0001	0.0003	0.0008	0.0009	NOK	5.9003	6.3041
AUD/NZD	1.0684	0.0006	0.0024	0.0056	0.0130	SEK	6.1804	6.6033
AUD/JPY	81.05	-0.01	-0.05	-0.18	-0.76	SGD	0.8910	0.9519
AUD/EUR	0.6312	-0.0003	-0.0011	-0.0028	-0.0082	TWD	18.44	19.70
AUD/GBP	0.5256	0.0001	0.0005	0.0010	0.0013	ZAR	10.1879	10.8851
USD Index	97.23					EQUITIES		
EUR/USD	1.1145	0.0006	0.0024	0.0061	0.0160		Index	
USD/JPY	115.22	-0.02	-0.13	-0.39	-1.23	NZX50	12,050	
GBP/USD	1.3385	-0.0002	-0.0006	-0.0011	-0.0016	ASX200	6,838	
EUR/GBP	0.8327	0.0006	0.0022	0.0052	0.0130	Dow Jones	34,162	
						S&P 500	4,320	
						FTSE100	7,554	
						DAX 30	15,524	
						Nikkei	26,170	
						COMMODITIES		
							USD	
						Dubai Light	87.17	
						Brent Crude	89.57	
						Gold	1,794.39	
						Silver	22.70	
						CRB Index	267.83	
							NZD	
						NZ Carbon	75.25	

INTEREST RATES	New Zealand		Australia	
	Borrow	Invest	Borrow	Invest
30 day bank bills	0.87%	0.84%	0.02%	0.02%
90 day bank bills	1.13%	1.10%	0.10%	0.06%
FRA 90d in 3mths	1.80%	1.77%	0.40%	0.37%
FRA 180d in 6mths	2.50%	2.48%	1.09%	1.07%
1 year swap	1.99%	1.97%	0.62%	0.62%
2 year swap	2.48%	2.46%	1.26%	1.22%
3 year swap	2.68%	2.66%	1.62%	1.59%
5 year swap	2.82%	2.80%	1.90%	1.89%
10 year swap	2.86%	2.83%	2.21%	2.19%
10 year Govt bond		2.65%		2.02%

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