

Market Alert

Friday 10 June 2022

| CURRENCIES | Spot | 6mths |
|------------|--------|---------|
| NZD/USD | 0.6385 | -0.0029 |
| NZD/AUD | 0.8994 | -0.0041 |
| NZD/JPY | 85.77 | -1.39 |
| NZD/EUR | 0.6014 | -0.0092 |
| NZD/GBP | 0.5110 | -0.0031 |
| NZD/CNH | 4.2781 | -0.0074 |
| AUD/USD | 0.7098 | 0.0000 |
| AUD/EUR | 0.6685 | -0.0074 |
| EUR/USD | 1.0612 | 0.0116 |
| USD/CNH | 6.7004 | 0.0163 |
| GBP/USD | 1.2494 | 0.0019 |
| EUR/GBP | 0.8495 | 0.0079 |

| INT RATES | NZ | Australia |
|--------------|-------|-----------|
| OCR/Cash | 2.00% | 0.85% |
| 90 day bills | 2.55% | 1.53% |
| 2 year swap | 3.93% | 3.38% |
| 10 year Govt | 3.94% | 3.69% |

ECB turns hawkish to counter inflation

The ECB confirmed overnight its intention to raise its key interest rates by 25 basis points at its July meeting, and it will finally end its long era of unconventional monetary policy measures. Net asset purchases will end by 1 July and negative interest rates will be history before the end of the summer.

For now, the interest rates on the main refinancing operations, marginal lending facility and deposit facility remain unchanged at 0.00%, 0.25% and -0.50%, but "beyond September, based on its current

assessment, the Governing Council anticipates that a gradual but sustained path of further increases in interest rates will be appropriate."

The ECB significantly downgraded its growth forecasts to 2.80% in 2022 and 2.10% in 2023, with 2024 revised up slightly to 2.1%, while annual inflation is now expected to hit 6.80% in 2022, before declining to 3.50% in 2023 and 2.01% in 2024.

During the press conference, ECB President, Christine Lagarde, emphasised the decision was unanimously with the discussion mainly focused on the challenge of high inflation and how to tackle it. It appears that Ms Lagarde managed to find a nice compromise between the doves and the hawks with the intention to raise the key ECB interest rates by 25 basis points in July. This suggests that it expects to raise borrowing rates further in September with the hint that a larger 50-point hike could be appropriate, should the inflation outlook deteriorate.

In establishing a new pathway to higher borrowing costs, the ECB has taken an axe to equity markets with international bourses off 1.50% to 2.50% lower. European bond yields unsurprisingly rose sharply with the yield on the 10-year Bund reaching 1.45% while its French counterpart surpassed 2.0% as both reached 8 year highs. The T-bond was stable rallying a pip to 3.05%. The USD-index also received a major boost as the EUR and NZD sold-off 1.0% against the

USD, while the AUD got pummelled, losing 1.50%. While we're not quite there yet, the long term analyses are starting to look a little pessimistic!

CFO fears are growing

The CNBC CFO Council Survey indicated a recession will hit in the first half of 2023 with 40% citing inflation as the No. 1 external risk while 23% of CFOs cited Federal Reserve policy as the biggest risk factor.

It's nothing new, but the RBNZ yesterday confirmed it plans to sell New Zealand government bonds (NZGBs) acquired under its LSAP programme in order of maturity date, beginning with the longest maturities, while shorter-maturity bonds mature naturally without reinvestment.

Chinese exports rose 16.9% in the year to May, rebounding from only 3.90% in April, while imports rose 4.10% in May, up from 0.0% the previous month.

China generated a trade balance surplus of CNY502.89 billion (expected 448 billion). The increase in both exports and imports was mainly due to the re-opening of the port of Shanghai, China's largest port, in the final week of May.

The British Chambers of Commerce had cut its 2022 GDP growth forecast from 3.60% to 3.50% and has increased its inflation forecast to 10% in Q4 22. Investment growth expectations were also cut from 3.50% to 1.80%.



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Daily Rates

Friday 10 June 2022

| FX | Spot | FECs (mid) | | | | Spot Mid | | |
|-----------------------|--------|--------------------|---------|------------------|---------|--------------------|--------------|--------|
| | Mid | 1mth | 3mths | 6mths | 12mths | NZD/... | AUD/... | |
| NZ TWI | 71.80 | | | | | CAD | 0.8104 | 0.9009 |
| NZD/USD | 0.6385 | -0.0004 | -0.0014 | -0.0029 | -0.0042 | CHF | 0.6259 | 0.6959 |
| NZD/AUD | 0.8994 | -0.0008 | -0.0025 | -0.0041 | -0.0057 | CNY | 4.2827 | 4.7589 |
| NZD/JPY | 85.77 | -0.16 | -0.59 | -1.39 | -3.31 | DKK | 4.4748 | 4.9738 |
| NZD/EUR | 0.6014 | -0.0013 | -0.0046 | -0.0092 | -0.0181 | FJD | 1.3767 | 1.5304 |
| NZD/GBP | 0.5110 | -0.0004 | -0.0014 | -0.0031 | -0.0066 | HKD | 5.0117 | 5.5714 |
| | | | | | | KRW | 808.21 | 898.46 |
| AU TWI | 63.70 | | | | | MYR | 2.8043 | 3.1174 |
| AUD/USD | 0.7098 | 0.0002 | 0.0004 | 0.0000 | -0.0017 | NOK | 6.1327 | 6.8165 |
| AUD/NZD | 1.1115 | 0.0008 | 0.0027 | 0.0047 | 0.0060 | SEK | 6.3383 | 7.0451 |
| AUD/JPY | 95.35 | -0.10 | -0.41 | -1.14 | -3.11 | SGD | 0.8828 | 0.9814 |
| AUD/EUR | 0.6685 | -0.0009 | -0.0033 | -0.0074 | -0.0162 | TWD | 18.90 | 21.01 |
| AUD/GBP | 0.5680 | 0.0001 | -0.0001 | -0.0009 | -0.0039 | ZAR | 9.90 | 11.00 |
| USD Index | 103.33 | | | | | EQUITIES | | |
| EUR/USD | 1.0612 | 0.0017 | 0.0057 | 0.0116 | 0.0238 | | Index | |
| USD/JPY | 134.34 | -0.17 | -0.64 | -1.59 | -4.15 | NZX50 | 11,211 | |
| GBP/USD | 1.2494 | 0.0002 | 0.0008 | 0.0019 | 0.0054 | ASX200 | 7,020 | |
| EUR/GBP | 0.8495 | 0.0013 | 0.0040 | 0.0079 | 0.0146 | Dow Jones | 32,455 | |
| | | | | | | S&P 500 | 4,048 | |
| | | | | | | FTSE100 | 7,476 | |
| | | | | | | DAX 30 | 14,199 | |
| | | | | | | Nikkei | 28,247 | |
| INTEREST RATES | | New Zealand | | Australia | | COMMODITIES | | |
| | | Mid | | Mid | | | USD | |
| 30 day bank bills | | 2.11% | | 0.89% | | Brent Crude | 122.67 | |
| 90 day bank bills | | 2.55% | | 1.53% | | Gold | 1,847.02 | |
| 1 year swap | | 3.60% | | 2.89% | | Silver | 21.67 | |
| 2 year swap | | 3.93% | | 3.38% | | Iron Ore | 145.34 | |
| 3 year swap | | 4.00% | | 3.51% | | CRB Index | 351.25 | |
| 5 year swap | | 4.04% | | 3.58% | | | NZD | |
| 10 year swap | | 4.09% | | 3.79% | | NZ Carbon | 76.60 | |
| 3 year Govt bond | | 3.60% | | 3.10% | | | | |
| 5 year Govt bond | | 3.71% | | 3.39% | | | | |
| 10 year Govt bond | | 3.94% | | 3.69% | | | | |

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