

# Market Alert

Thursday 16 June 2022

CURRENCIES	Spot	6mths
NZD/USD	0.6292	-0.0026
NZD/AUD	0.8985	-0.0036
NZD/JPY	84.27	-1.58
NZD/EUR	0.6031	-0.0104
NZD/GBP	0.5166	-0.0040
NZD/CNH	4.2023	-0.0147
AUD/USD	0.7003	-0.0002
AUD/EUR	0.6704	-0.0090
EUR/USD	1.0442	0.0138
USD/CNH	6.6711	0.0028
GBP/USD	1.2175	0.0042
EUR/GBP	0.8574	0.0081

  

INT RATES	NZ	Australia
OCR/Cash	2.00%	0.85%
90 day bills	2.78%	1.76%
2 year swap	4.54%	3.85%
10 year Govt	4.36%	4.30%

## The Federal Reserve capitulated ...

... dancing to the markets tune, raising the Fed's benchmark rate by 75bps to a range of 1.50%-1.75%. The hike was in line with market and economists' expectations, but against the Fed's prior guidance, and was the biggest increase since 1994. There was one dissenter, Kansas City Fed President Esther George, who favoured a 50bps hike. The Fed acknowledged it remains "strongly committed to fighting inflation!"

The FOMC statement added an additional line stating it is "strongly committed to

returning inflation to its 2.0% objective" and removed the prior line that it "expects inflation to return to its 2.0% objective and the labour market to remain strong." Fed Chairman, Jerome Powell, noted that an increase in the unemployment rate to 4.1% would be "a successful outcome!"

In the Q&A, Mr Powell acknowledged, "Today's 75 basis point increase was an unusually large one, and I do not expect moves of this size to be common" although he then added, "We decided we needed to do more front loading. The next meeting could well be a decision between 50bps and 75bps." In terms of changing the call to 75bps from 50bps, Jerome Powell acknowledged the preliminary University of Michigan long-term inflation expectations number – which jumped to 3.3% from 3.0% on Friday – was "eye catching," as was Friday's CPI release.

The Fed also sharply raised its interest rate outlook, inline with market estimates, and sharply lowered its growth and employment outlooks. The new dot-plot projections showed the federal funds target rate increasing to 3.40% by year end, implying another 175bps of tightening this year – and to 3.80% in 2023, before falling to 3.40% in 2024. Prior forecasts in March were for a 1.09% cash rate this year and 2.80% in 2023 and 2024. The Fed's economic projections forecast a soft landing with the unemployment rate rising from 3.7% at end-2022 to 4.1% in

2024, while growth forecasts were cut to 1.7% in 2022 and 2023, from 2.8% and 2.2% in March. Unsurprisingly, Fed officials continue to expect a significant fall in headline inflation in 2023.

In other news, US retail sales unexpectedly fell -0.3% in May, the first decline so far this year, compared to market forecasts of a 0.2% rise. The April number was also revised lower to 0.7%.

During its 15 June (emergency) meeting, the ECB announced it will end its asset purchase programme in July, and with inflation showing no signs of slowing, the central bank also acknowledged it intends to raise borrowing rates at its July meeting by 0.25%.

## The implications

The Fed is attempting to get ahead of the inflation curve and this helped financial markets gain some confidence as equity markets showed a modest bounce.

This saw European bourses gain 1.0%-2.0% while the US index's bounced 1.05-2.5%. But the biggest impact was on bond markets with the US yield curve steepening after the 2-year treasury yield fell 21bps to 3.21% while the 10-year eased 17bps to 3.30%. The German bund also eased off, with the yield 11bps lower at 1.64%. The USD-index also fell, which saw the NZD and AUD both rally against the USD.



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# Daily Rates

Thursday 16 June 2022

FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	70.60					CAD	0.8112	0.9031
NZD/USD	0.6292	-0.0002	-0.0013	-0.0026	-0.0054	CHF	0.6259	0.6966
NZD/AUD	0.8985	-0.0006	-0.0023	-0.0036	-0.0056	CNY	4.1846	4.6499
NZD/JPY	84.27	-0.19	-0.71	-1.58	-3.69	DKK	4.4817	4.9882
NZD/EUR	0.6031	-0.0014	-0.0052	-0.0104	-0.0206	FJD	1.3575	1.5109
NZD/GBP	0.5166	-0.0004	-0.0020	-0.0040	-0.0085	HKD	4.9392	5.4973
						KRW	806.19	897.29
AU TWI	62.00					MYR	2.7760	3.0897
AUD/USD	0.7003	0.0002	0.0003	-0.0002	-0.0016	NOK	6.2546	6.9620
AUD/NZD	1.1122	0.0007	0.0023	0.0040	0.0060	SEK	6.4104	7.1348
AUD/JPY	93.74	-0.14	-0.55	-1.39	-3.56	SGD	0.8731	0.9718
AUD/EUR	0.6704	-0.0012	-0.0041	-0.0090	-0.0190	TWD	18.63	20.74
AUD/GBP	0.5750	-0.0001	-0.0008	-0.0022	-0.0061	ZAR	9.95	11.07
USD Index	104.85					<b>EQUITIES</b>		
EUR/USD	1.0442	0.0021	0.0066	0.0138	0.0274		<b>Index</b>	
USD/JPY	133.75	-0.25	-0.85	-1.96	-4.87	NZX50	10,636	
GBP/USD	1.2175	0.0004	0.0014	0.0042	0.0096	ASX200	6,601	
EUR/GBP	0.8574	0.0013	0.0042	0.0081	0.0157	Dow Jones	30,817	
						S&P 500	3,838	
<b>INTEREST RATES</b>		<b>New Zealand</b>		<b>Australia</b>		FTSE100	7,273	
		<b>Mid</b>		<b>Mid</b>		DAX 30	13,485	
30 day bank bills		2.22%		1.04%		Nikkei	26,326	
90 day bank bills		2.78%		1.76%		<b>COMMODITIES</b>		
1 year swap		4.18%		3.52%			<b>USD</b>	
2 year swap		4.54%		3.85%		Brent Crude	118.81	
3 year swap		4.59%		4.00%		Gold	1,833.20	
5 year swap		4.56%		4.27%		Silver	21.69	
10 year swap		4.55%		4.43%		Iron Ore	140.09	
3 year Govt bond		4.06%		3.70%		CRB Index	335.56	
5 year Govt bond		4.17%		4.00%			<b>NZD</b>	
10 year Govt bond		4.36%		4.30%		NZ Carbon	77.00	

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