

Market Alert

Friday 17 June 2022

CURRENCIES	Spot	6mths
NZD/USD	0.6364	-0.0026
NZD/AUD	0.9020	-0.0038
NZD/JPY	84.06	-1.59
NZD/EUR	0.6027	-0.0104
NZD/GBP	0.5149	-0.0038
NZD/CNH	4.2539	-0.0116
AUD/USD	0.7053	-0.0001
AUD/EUR	0.6678	-0.0087
EUR/USD	1.0557	0.0138
USD/CNH	6.6820	0.0033
GBP/USD	1.2356	0.0040
EUR/GBP	0.8543	0.0082

INT RATES	NZ	Australia
OCR/Cash	2.00%	0.85%
90 day bills	2.83%	1.79%
2 year swap	4.47%	3.98%
10 year Govt	4.34%	4.08%

Data rich, sentiment poor

The BoE resisted the temptation to follow the Fed into a more aggressive tightening cycle opting for a fourth consecutive 25bps hike taking the cash rate up to 1.25%.

Interestingly, the vote split was exactly the same as in May with 3 out of 9 committee members preferring a more aggressive 50bps increase. The accompanying statement was more hawkish, referencing that while UK core inflation was higher than in the US and Europe, the BoE is prepared

to undertake a more aggressive hiking strategy should cost pressures become more persistent. Meaning that a 50bp move is a possibility in August.

The Swiss National Bank, the SNB, joined the party by raising their cash rate by 50bps to -0.25%. While the consensus was that the SNB would leave its key rate unchanged, the central bank surprised everyone with its first rate hike since 2007. Naturally, the hike is aimed at countering inflationary pressures, as inflation in Switzerland reached 2.9% in May – its highest level since the summer of 2008 and outside the SNB's 0.0%-2.0% target.

The Australian May employment report flatlined at 3.9%, remaining at its all time low, although it was slightly worse than the 3.8% expected. Full-time employment rose by 69,400, which offset the modest -8,700 decline in part-time workers, while the participation rate increased to 66.7% from 66.4%. Simply put, the implied strength in Australian labour demand means that the RBA still has a way to go to get rates out of their current accommodative setting. Labour market tightness is likely to get more extreme as they make that transition. Emphasising that point, Australian inflation expectations from the Melbourne Institute increased to 6.7% from previous 5.0%.

New Zealand Q1 GDP contracted 0.2% q/q (expected +0.6%). The consensus on

this result is that it has been driven by the ongoing covid outbreaks, variants, and consequential lockdowns. In response to the result, the Finance Minister, Grant Robertson, said "the volatile global situation" had been reflected in the quarterly GDP figures, "although strong annual growth shows New Zealand is still well positioned to deal with the challenging global environment." Looking ahead, while growth may have rebounded strongly in the current quarter, we suspect falling house prices and high interest rates will weigh in as a counterbalance.

Housing starts in the US sank 14.4% month-on-month in May while US initial claims fell 3,000 to 229,000, below forecasts of 210,000 highlighting the exceptionally tight labour market.

The reality of the Federal Reserves situation, and rate hikes from the BoE and SNB, emphasised the point that central banks are committed to bringing inflation down, regardless of the damage it will do to their respective economies.

Once again equity markets are a 'sea of red' with the Dow on the verge of officially entering 'bear territory'. European and US bourses 2.0%-4.0% lower. Commodity markets remain strong while the US-dollar for a change has come under selling pressure. Finally, bond yields are mixed with the US 10-Year T-Bond off 4 pips to 3.24%.



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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	70.80					CAD	0.8230	0.9124
NZD/USD	0.6364	-0.0003	-0.0012	-0.0026	-0.0049	CHF	0.6144	0.6810
NZD/AUD	0.9020	-0.0007	-0.0022	-0.0038	-0.0047	CNY	4.2326	4.6768
NZD/JPY	84.06	-0.17	-0.67	-1.59	-3.67	DKK	4.4827	4.9675
NZD/EUR	0.6027	-0.0014	-0.0049	-0.0104	-0.0199	FJD	1.3660	1.5138
NZD/GBP	0.5149	-0.0005	-0.0018	-0.0038	-0.0080	HKD	4.9956	5.5365
						KRW	818.63	907.26
AU TWI	62.70					MYR	2.8002	3.1033
AUD/USD	0.7053	0.0001	0.0003	-0.0001	-0.0024	NOK	6.3189	7.0030
AUD/NZD	1.1080	0.0005	0.0022	0.0039	0.0048	SEK	6.4460	7.1439
AUD/JPY	93.17	-0.14	-0.52	-1.37	-3.60	SGD	0.8799	0.9753
AUD/EUR	0.6678	-0.0012	-0.0039	-0.0087	-0.0189	TWD	18.90	20.95
AUD/GBP	0.5706	-0.0002	-0.0007	-0.0020	-0.0058	ZAR	10.18	11.28
USD Index	103.76					EQUITIES		
EUR/USD	1.0557	0.0020	0.0066	0.0138	0.0267		Index	
USD/JPY	132.06	-0.22	-0.79	-1.94	-4.77	NZX50	10,647	
GBP/USD	1.2356	0.0005	0.0018	0.0040	0.0086	ASX200	6,591	
EUR/GBP	0.8543	0.0012	0.0040	0.0082	0.0151	Dow Jones	29,802	
						S&P 500	3,653	
						FTSE100	7,045	
						DAX 30	13,038	
						Nikkei	26,431	
INTEREST RATES		New Zealand	Australia			COMMODITIES		
		Mid	Mid				USD	
30 day bank bills		2.25%	1.04%			Brent Crude	119.19	
90 day bank bills		2.83%	1.79%			Gold	1,852.37	
1 year swap		4.12%	3.51%			Silver	21.90	
2 year swap		4.47%	3.98%			Iron Ore	137.17	
3 year swap		4.52%	4.11%			CRB Index	338.10	
5 year swap		4.51%	4.13%				NZD	
10 year swap		4.54%	4.34%			NZ Carbon	76.85	
3 year Govt bond		4.00%	3.51%					
5 year Govt bond		4.13%	3.78%					
10 year Govt bond		4.34%	4.08%					

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