

Market Alert

Monday 4 July 2022

CURRENCIES	Spot	6mths
NZD/USD	0.6192	-0.0013
NZD/AUD	0.9090	-0.0033
NZD/JPY	83.79	-1.57
NZD/EUR	0.5935	-0.0102
NZD/GBP	0.5115	-0.0036
NZD/CNH	4.1470	0.0000
AUD/USD	0.6813	0.0009
AUD/EUR	0.6535	-0.0087
EUR/USD	1.0420	0.0152
USD/CNH	6.7001	0.0000
GBP/USD	1.2102	0.0056
EUR/GBP	0.8615	0.0082

INT RATES	NZ	Australia
OCR/Cash	2.00%	0.85%
90 day bills	2.88%	1.86%
2 year swap	3.84%	3.36%
10 year Govt	3.76%	3.68%

Happy Independence Day!

"We are fighting for our right to live. To exist. And should we win the day, the Fourth of July will no longer be known as an American holiday, but as the day the world declared in one voice ... We will not go quietly into the night! We will not vanish without a fight!" No, it's not a speech by Ukrainian President Zelensky ... but it could be!

Friday saw the first positive equity session of Q3 but, unfortunately, the relief rally was as good as it got!

In the US, the ISM manufacturing PMI fell to 53 in June from May's 56.1, and below market forecasts of 54.9, as new orders contracted for the first time in two years suggesting higher interest rates are hurting demand. Meanwhile, in the Euro-zone, the annual inflation rate increased to a new record high of 8.6% in June from 8.1% in May. But wait, JP Morgan has suggested European inflation could get even worse should Russia choose not to participate in an oil price cap and instead retaliate by reducing output as "the Russian government could retaliate by cutting output as a way to inflict pain on the West. The tightness of the global oil market is on Russia's side." By cutting output, the banks analysis suggest a 3 million barrel output cut to daily supplies would push benchmark crude prices to USD190, while a worst case scenario of 5 million of cuts would see a 'stratospheric' USD380 price of crude!

JP Morgan economists also cut their US mid-year growth outlook, saying that while their forecast comes "perilously close" to a recession, they are holding out for a mild economic expansion. Meanwhile, Goldman Sachs strategists noted that the risk of a renewed sell-off in equity markets is high given investors are starting to price-in a mild recession.

In amongst the contradictions of a mild equity recovery amid the economists 'doom-and-gloom' forecasts, the Friday

session saw bond yields tumbled with the US 10-year rate at one stage plunging more than 14 bps before recovering to close the session a mere 4 bps lower at 2.88%. Currency markets also struck a risk-off tone with the NZD and AUD weakening, with the NZD/USD closing below the psychological 0.6200 level while the AUD/USD hit a low of 0.6764 before recovering to close at 0.6814. The JPY also saw a strong bout of new buying.

Looking ahead

This week there will be non-farm payrolls from the US, with expectations of an increase of 270,000 jobs in June. The unemployment rate is expected to be steady at 3.6% as well as wage growth at 0.3%. There will be appearances from Fed members as well as the FOMC minutes later this week, as markets watch for indications of the expected rate hike in July.

In the UK, markets will be paying attention to BoE policymakers, including Governor, Andrew Bailey, and the central bank's Financial Stability Report on Tuesday, while, in Europe, comments from ECB President, Christine Lagarde, and ECB policymakers and minutes from the ECB's last monetary policy meeting will take centre stage.

There are also PMIs from China, while Tuesday brings the latest RBA policy decision where it is expected to hike interest rates by another 0.55% to 1.35%.



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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	70.50					CAD	0.7957	0.8780
NZD/USD	0.6192	-0.0002	-0.0006	-0.0013	-0.0028	CHF	0.5925	0.6525
NZD/AUD	0.9090	-0.0005	-0.0017	-0.0033	-0.0043	CNY	4.1424	4.5475
NZD/JPY	83.79	-0.18	-0.64	-1.57	-3.37	DKK	4.4055	4.8542
NZD/EUR	0.5935	-0.0014	-0.0046	-0.0102	-0.0191	FJD	1.3491	1.4865
NZD/GBP	0.5115	-0.0004	-0.0015	-0.0036	-0.0067	HKD	4.8461	5.3397
						KRW	802.06	883.74
AU TWI	61.30					MYR	2.7211	2.9983
AUD/USD	0.6813	0.0002	0.0006	0.0009	-0.0006	NOK	6.1063	6.7282
AUD/NZD	0.6535	0.0004	0.0018	0.0035	0.0039	SEK	6.3591	7.0068
AUD/JPY	92.17	-0.16	-0.54	-1.41	-3.32	SGD	0.8623	0.9501
AUD/EUR	0.6524	-0.0012	-0.0039	-0.0087	-0.0183	TWD	18.41	20.28
AUD/GBP	0.5619	-0.0002	-0.0006	-0.0020	-0.0049	ZAR	10.07	11.09
USD Index	105.14					EQUITIES		
EUR/USD	1.0428	0.0021	0.0068	0.0152	0.0288		Index	
USD/JPY	135.35	-0.26	-0.90	-2.25	-4.95	NZX50	10,753	
GBP/USD	1.2102	0.0006	0.0021	0.0056	0.0094	ASX200	6,540	
EUR/GBP	0.8615	0.0012	0.0039	0.0082	0.0167	Dow Jones	31,097	
						S&P 500	3,825	
INTEREST RATES						FTSE100	7,169	
		New Zealand		Australia		DAX 30	12,813	
		Mid		Mid		Nikkei	25,936	
30 day bank bills		2.41%		1.20%		COMMODITIES		
90 day bank bills		2.88%		1.86%			USD	
1 year swap		3.72%		3.03%		Brent Crude	111.63	
2 year swap		3.84%		3.36%		Gold	1,810.18	
3 year swap		3.84%		3.41%		Silver	19.87	
5 year swap		3.84%		3.60%		Iron Ore	114.45	
10 year swap		3.93%		3.89%		CRB Index	311.31	
3 year Govt bond		3.45%		2.98%			NZD	
5 year Govt bond		3.55%		3.29%		NZ Carbon	0.00	
10 year Govt bond		3.76%		3.68%				

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