

Market Alert

Thursday 31 August 2022

CURRENCIES	Spot	6mths
NZD/USD	0.6134	-0.0001
NZD/AUD	0.8946	-0.0023
NZD/JPY	85.37	-1.68
NZD/EUR	0.6165	-0.0079
NZD/GBP	0.5262	-0.0019
NZD/CNH	4.2453	-0.0247
AUD/USD	0.6855	0.0016
AUD/EUR	0.6840	-0.0072
EUR/USD	1.0018	0.0128
USD/CNH	6.9217	-0.0410
GBP/USD	1.1656	0.0035
EUR/GBP	0.8594	0.0080

INT RATES	NZ	Australia
OCR/Cash	3.00%	1.85%
90 day bills	3.50%	2.52%
2 year swap	4.31%	3.67%
10 year Govt	4.05%	3.68%

This is a shocker

If you thought central banks have beaten inflation, think again! Annual inflation in Germany increased to 7.9% in August, its highest level since reunification in the 1990s!

Unsurprisingly, given the biblical droughts and floods around the globe, food prices increased 16.6%, while energy costs spiked 35.6%. With inflation expected to peak at 10.0%, there was one positive in that the EU looks on track to hit its winter gas reserves storage target two months ahead of schedule, with reserves now up to 79.4%,

compared with the initial target of 80% by November.

And just in case anyone had missed the ECB's latest messaging, the ECB policy-makers were again out in force. The Governor at the National Bank of Belgium, Pierre Wunsch, announced *"(We have) to move quickly on rates to a level that may be restrictive. We may be going towards a technical recession, or worse,"* while Bundesbank Chief, Joachim Nagel, went even further stating *"The ECB must act decisively to preserve credibility. The ECB should not delay rate hikes out of fear of a recession. Frontloading rate hikes reduces the risk of a painful downturn. Larger rate hikes reduce the risk of expectations getting de-anchored; they are anchored for now. The terminal rate is still unclear."* Finally, Yannis Stournaras, Governor of the Bank of Greece, added, *"Further gradual normalization will be appropriate; Neutral rate estimated between 0.5% and 1.5%; Don't need to take very large steps; need to be prudent."*

With inflation still elevated, at least the American worker can take some comfort from the job market after the number of US job openings increased by 199k from a month earlier, rising to 11.2 million in July, in what was the first increase in job openings after three consecutive months of declines. And, in a similar story to most developed economies, the Case-Shiller 20-city home price index showed 'just' an 18.6% increase in the year to June in

what was the index's lowest increase in six months and well below forecasts of a 19.5% rise.

Yesterday's Australian data showed that while building permits for private dwellings increased 0.7% in the month of July, building approvals plummeted -17.2% when a modest contraction of -2.0% had been expected.

Furthermore, Goldman Sachs remains cautious on the AUD/USD given that *"despite the support of positive terms of trade shocks, the AUD's decline has been driven by deteriorating risk sentiment, a faster pace of monetary tightening in the US, and rising global growth concerns. Over the medium term, there are some macroeconomic tailwinds for the Aussie that could help support the currency, including a very strong trade surplus, however, downside risks to China (and global) growth remain in focus and we remain cautious on the AUD."* Furthermore, Goldmans suggest UK inflation could top 22% next year should natural gas prices remain elevated.

Despite the doom and gloom

It was a fairly quiet session for financial markets. Commodity markets were under the pump as recessionary fears grew, with oil off -5%, while equity markets were much more sanguine, easing between -0.5%-1.5%. The US 10-year Treasury yield was steady at 3.10% while FX markets were predominantly range bound.



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Daily Rates

Thursday 31 August 2022

FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	70.90					CAD	0.8025	0.9018
NZD/USD	0.6129	-0.0001	-0.0001	-0.0002	-0.0010	CHF	0.5968	0.6677
NZD/AUD	0.8941	-0.0006	-0.0013	-0.0024	-0.0036	CNY	4.2437	4.7549
NZD/JPY	85.37	-0.23	-0.73	-1.69	-3.64	DKK	4.5486	5.0866
NZD/EUR	0.6165	-0.0014	-0.0039	-0.0080	-0.0149	FJD	1.3435	1.5024
NZD/GBP	0.5258	-0.0004	-0.0010	-0.0019	-0.0023	HKD	4.8108	5.3798
						KRW	827.26	925.12
AU TWI	63.50					MYR	2.7421	3.0665
AUD/USD	0.6813	0.0003	0.0008	0.0016	0.0012	NOK	6.0137	6.7251
AUD/NZD	0.6535	0.0006	0.0015	0.0023	0.0034	SEK	6.5442	7.3184
AUD/JPY	95.80	-0.21	-0.68	-1.64	-3.72	SGD	0.8567	0.9581
AUD/EUR	0.6838	-0.0012	-0.0034	-0.0072	-0.0141	TWD	18.67	20.88
AUD/GBP	0.5880	-0.0001	-0.0003	-0.0006	-0.0003	ZAR	10.41	11.64
USD Index	108.80					EQUITIES		
EUR/USD	1.0019	0.0021	0.0061	0.0128	0.0227		Index	
USD/JPY	138.81	-0.36	-1.15	-2.71	-5.87	NZX50	11,649	
GBP/USD	1.1655	0.0006	0.0019	0.0035	0.0021	ASX200	6,998	
EUR/GBP	0.8595	0.0012	0.0037	0.0082	0.0172	Dow Jones	31,791	
						S&P 500	3,986	
INTEREST RATES						FTSE100	7,362	
		New Zealand		Australia		DAX 30	12,961	
		Mid		Mid		Nikkei	28,196	
30 day bank bills		3.09%		2.11%		COMMODITIES		
90 day bank bills		3.50%		2.52%			USD	
1 year swap		4.17%		3.42%		Brent Crude	99.89	
2 year swap		4.31%		3.66%		Gold	1,724.19	
3 year swap		4.24%		3.68%		Silver	18.43	
5 year swap		4.12%		3.77%		Iron Ore	105.28	
10 year swap		4.10%		3.96%		CRB Index	314.43	
3 year Govt bond		3.89%		3.28%			NZD	
5 year Govt bond		3.91%		3.44%		NZ Carbon	86.70	
10 year Govt bond		4.05%		3.68%				

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