

Market Alert

Friday 5 August 2022

CURRENCIES	Spot	6mths
NZD/USD	0.6305	-0.0008
NZD/AUD	0.9041	-0.0034
NZD/JPY	83.75	-1.65
NZD/EUR	0.6153	-0.0096
NZD/GBP	0.5179	-0.0031
NZD/CNH	4.2566	-0.0308
AUD/USD	0.6975	0.0016
AUD/EUR	0.6804	-0.0082
EUR/USD	1.0247	0.0146
USD/CNH	6.7506	-0.0397
GBP/USD	1.2173	0.0056
EUR/GBP	0.8416	0.0080

INT RATES	NZ	Australia
OCR/Cash	2.50%	1.85%
90 day bills	3.24%	2.23%
2 year swap	3.75%	3.12%
10 year Govt	3.47%	3.21%

It's my birthday so be nice!

To celebrate me, the BoE undertook its largest rate hike in 27-years, raising the cash rate 50bps to 1.75%, with inflation expected to peak at 13.3% in October! It was their sixth consecutive hike, and while the GBP initially strengthened, the rally was short lived after the BoE forecast the UK will enter a recession in Q4 that will last for 5 quarters. Eight members of the MPC voted for the larger-than-usual rate increase, reasoning that the cost of not acting aggressively to bring inflation under control would mean greater pain in

the longer term. The fact that the Bank is stepping up the pace of rate hikes, while also forecasting a meaningful recession, shows how worried they are that worker shortages and supply issues could keep inflation elevated even as the economy weakens.

When asked about what the BoE would need to see to deliver another 50bps rate hike in September, the BoE Governor, Andrew Bailey, was a little vague announcing, "(It's) important to have moved away from predictive forward guidance. Near-term inflationary pressures have intensified significantly. The uncertainty surrounding the outlook is exceptionally high. Labour market may only loosen slowly in response to falling demand, but unemployment is expected to rise starting from next year. We don't target the exchange rate, but we factor the impact on future inflation."

In the US, initial jobless claims increased slightly to 260,000 against estimates at 259,000. The Fed's Atlanta GDPNow forecaster upgraded its Q3 projection to 1.4% from 1.3%, while the June trade deficit narrowed to its lowest level in 6 months at 'just' -USD79.6 billion.

Ahead of tonight's US employment data, JPM is forecasting the NFP headline number will fall to 200,000, which is at the lower end of forecasts at 250,000, as "the labour market appears to be softening on the margin" and that a recession is already underway. Morgan Stanley added, "We're bearish on EUR/USD targeting 0.97. Eurozone growth data continue to appear challenged as high prices and sticky

wages are seeing real disposable incomes fall. High natural gas prices and ongoing political uncertainty should keep investors cautious."

Fed member, Loretta Mester, announced, "I would pencil in going a bit above 4.0% in Fed funds. We are not in a recession now, although recession rates have increased. Policy is working on the demand side, but that moderating demand is not yet impacting inflation." Hedge Fund Manager, Jeffrey Gundlach, forecast the yield curve inversion will worsen as "The 2-year 10-year yield curve inversion is gaining steam."

China Securities Journal announced that China's infrastructure investment is expected to increase 11.0% in 2022 while the government has announced it will inject USD47 billion into small and mid-sized banks.

In Australia, following on from last month's AUD15.96 billion record trade surplus, the June surplus smashed that figure out of the ballpark reaching AUD17.67 billion as exports surged 5.0%, while imports increased a modest 1.0%!

Equity markets were quiet overnight following the BoE hike, although there was some good news as crude fell below USD89.00bbl while Brent is at USD94.00. Surprisingly, bond markets were also stable with the US 10 Year T-bond 2bps lower at 2.675%, while the NZD was the best performer overnight as the USD weakened slightly.



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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	71.40					CAD	0.8103	0.8965
NZD/USD	0.6305	-0.0002	-0.0004	-0.0008	-0.0020	CHF	0.6019	0.6659
NZD/AUD	0.9041	-0.0006	-0.0018	-0.0034	-0.0054	CNY	4.2467	4.6978
NZD/JPY	83.75	-0.20	-0.69	-1.65	-3.45	DKK	4.5772	5.0636
NZD/EUR	0.6153	-0.0014	-0.0044	-0.0096	-0.0187	FJD	1.3635	1.5084
NZD/GBP	0.5179	-0.0004	-0.0014	-0.0031	-0.0061	HKD	4.9494	5.4753
						KRW	821.48	908.78
AU TWI	62.80					MYR	2.8095	3.1081
AUD/USD	0.6813	0.0003	0.0009	0.0016	0.0011	NOK	6.1291	6.7804
AUD/NZD	0.6535	0.0007	0.0020	0.0037	0.0055	SEK	6.3728	7.0500
AUD/JPY	92.62	-0.16	-0.59	-1.51	-3.30	SGD	0.8671	0.9592
AUD/EUR	0.6804	-0.0011	-0.0036	-0.0082	-0.0169	TWD	18.89	20.90
AUD/GBP	0.5729	-0.0001	-0.0004	-0.0014	-0.0034	ZAR	10.47	11.58
USD Index	105.73					EQUITIES		
EUR/USD	1.0247	0.0021	0.0066	0.0146	0.0275		Index	
USD/JPY	132.77	-0.29	-1.02	-2.45	-5.15	NZX50	11,735	
GBP/USD	1.2173	0.0007	0.0024	0.0056	0.0088	ASX200	6,975	
EUR/GBP	0.8416	0.0012	0.0037	0.0080	0.0161	Dow Jones	32,737	
						S&P 500	4,155	
INTEREST RATES		New Zealand		Australia		FTSE100	7,448	
		Mid		Mid		DAX 30	13,663	
30 day bank bills		2.91%		1.85%		Nikkei	27,932	
90 day bank bills		3.24%		2.23%		COMMODITIES		
1 year swap		3.81%		3.04%			USD	
2 year swap		3.75%		3.12%		Brent Crude	93.96	
3 year swap		3.65%		3.12%		Gold	1,793.86	
5 year swap		3.52%		3.13%		Silver	20.20	
10 year swap		3.51%		3.37%		Iron Ore	110.11	
3 year Govt bond		3.32%		2.86%		CRB Index	300.62	
5 year Govt bond		3.32%		2.98%			NZD	
10 year Govt bond		3.47%		3.21%		NZ Carbon	80.00	

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