

Market Alert

Wednesday 14 September 2022

CURRENCIES	Spot	6mths
NZD/USD	0.5989	0.0008
NZD/AUD	0.8899	-0.0026
NZD/JPY	86.56	-1.78
NZD/EUR	0.6006	-0.0074
NZD/GBP	0.5207	-0.0015
NZD/CNH	4.1818	-0.0148
AUD/USD	0.6729	0.0028
AUD/EUR	0.6747	-0.0065
EUR/USD	0.9969	0.0137
USD/CNH	6.9814	-0.0345
GBP/USD	1.1497	0.0045
EUR/GBP	0.8670	0.0081

INT RATES	NZ	Australia
OCR/Cash	3.00%	2.35%
90 day bills	3.61%	2.73%
2 year swap	4.14%	3.63%
10 year Govt	3.99%	3.65%

When everyone is feeling optimistic ...

... it's time to put on the pessimistic hat!

Last week I attended a debt market conference, and I was shocked as to how optimistic everyone was in their outlook for 2023. Chief economists, the central bank, even the finance minister ... the general feeling was that inflation has topped out, interest rates would follow their current projections, markets would

pause in H1 2023, and everything would return to pre-COVID levels with no recessions! Well, that economic rational has been well and truly thrown in the bin!

The catalyst was last night's US CPI number, which headlined at 8.3%, exceeding expectations at 8.1% as energy costs surged 23.8% on the year, while food prices increased 11.4%. However, the real shock was the fact that core inflation increased to 6.3% from July's 5.9%, highlighting that risk inflation could become embedded!

It was a similarly depressing story with the US IBD/TIPP optimism index, which rose to 44.7, but despite gaining ground, the index remains in negative territory for the 13th consecutive month. The outlook is even more pessimistic with the possibility of 90,000 rail workers about to go on strike which would impact 30.0% of US freight and likely trigger another surge in food price inflation.

The net result of last night's pessimism was ... panic! Yep, once again equity markets are a sea of red with European bourses off 2.0%-2.5%, while US markets had their knuckles firmly wrapped, falling 4.5%-5.5% with talk building that the market could re-test June lows! Strangely, commodity and bond markets have been rather pragmatic, with the

US 10-Year T-bond 6bps higher at 3.42%, although the USD index has surged to another multi-decade high, which has seen the NZD/USD plummet below the 0.6000 level and the AUD/USD target its July low falling below the 0.6750 level. Markets are now speculating the Fed will hike a full 1.00% at its next meeting!

The rest of the news isn't any better, either!

The Bank of Korea is concerned about the rapid drop in the won, given last night's move of course, we may be getting closer to that 'line in the sand' for the BoK and the BoJ!

The Australian Westpac consumer sentiment index rose 3.9% on the month to 84.4, from August's 81.2, while Australian August business confidence rose to 10.0 from 7.0. In New Zealand, the August food price index rose 1.1% on the month following July's 2.1% gain. This means local food prices have risen 8.3% in the last year, their fastest annual rate in 13 years.

Morgan Stanley has cut its Q3 Brent oil forecast to USD98.00 per barrel from USD110.00, while the Biden administration is reportedly ready to start refilling their strategic petroleum reserves at the USD80.00 level.



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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	71.00					CAD	0.7887	0.8863
NZD/USD	0.5989	0.0000	0.0001	0.0008	0.0016	CHF	0.5758	0.6470
NZD/AUD	0.8899	-0.0005	-0.0014	-0.0026	-0.0031	CNY	4.1672	4.6880
NZD/JPY	86.56	-0.26	-0.79	-1.78	-3.72	DKK	4.4661	5.0179
NZD/EUR	0.6006	-0.0014	-0.0038	-0.0074	-0.0130	FJD	1.3282	1.4923
NZD/GBP	0.5207	-0.0004	-0.0010	-0.0015	-0.0011	HKD	4.7011	5.2819
						KRW	833.99	937.04
AU TWI	63.40					MYR	2.6986	3.0321
AUD/USD	0.6813	0.0004	0.0012	0.0028	0.0030	NOK	6.0594	6.8081
AUD/NZD	0.6535	0.0005	0.0015	0.0027	0.0030	SEK	6.4036	7.1948
AUD/JPY	97.25	-0.23	-0.74	-1.75	-3.85	SGD	0.8424	0.9465
AUD/EUR	0.6747	-0.0011	-0.0032	-0.0065	-0.0123	TWD	18.65	20.95
AUD/GBP	0.5851	-0.0001	-0.0002	0.0000	0.0010	ZAR	10.46	11.75
USD Index	109.88					EQUITIES		
EUR/USD	0.9969	0.0022	0.0064	0.0137	0.0242		Index	
USD/JPY	144.49	-0.43	-1.35	-3.15	-6.63	NZX50	11,762	
GBP/USD	1.1497	0.0009	0.0023	0.0045	0.0050	ASX200	7,010	
EUR/GBP	0.8670	0.0013	0.0038	0.0081	0.0172	Dow Jones	31,085	
						S&P 500	3,933	
INTEREST RATES			New Zealand		Australia	FTSE100	7,386	
			Mid		Mid	DAX 30	13,189	
30 day bank bills			3.25%		2.43%	Nikkei	28,615	
90 day bank bills			3.61%		2.73%	COMMODITIES		
1 year swap			4.12%		3.38%		USD	
2 year swap			4.14%		3.63%	Brent Crude	93.28	
3 year swap			4.09%		3.67%	Gold	1,702.52	
5 year swap			4.00%		3.56%	Silver	19.33	
10 year swap			4.04%		3.84%	Iron Ore	101.41	
3 year Govt bond			3.80%		3.19%	CRB Index	306.43	
5 year Govt bond			3.84%		3.35%		NZD	
10 year Govt bond			3.99%		3.65%	NZ Carbon	84.00	

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