

Market Alert

Thursday 22 September 2022

CURRENCIES	Spot	6mths
NZD/USD	0.5856	0.0006
NZD/AUD	0.8821	-0.0027
NZD/JPY	84.31	-1.90
NZD/EUR	0.5945	-0.0076
NZD/GBP	0.5191	-0.0016
NZD/CNH	4.1534	-0.0259
AUD/USD	0.6637	0.0026
AUD/EUR	0.6737	-0.0067
EUR/USD	0.9848	0.0133
USD/CNH	7.0723	-0.0513
GBP/USD	1.1276	0.0046
EUR/GBP	0.8732	0.0084

INT RATES	NZ	Australia
OCR/Cash	3.00%	2.35%
90 day bills	3.74%	2.93%
2 year swap	4.44%	3.78%
10 year Govt	4.11%	3.74%

Taking the nuclear option

And I'm not talking about a certain Mr Putin — just yet — but before we have a nuclear melt-down, the Federal Reserve undertook their own nuclear option raising the Fed funds range by 75bps for the third consecutive time into a 3.0%-3.25% range, with the forecasts suggesting the mid-point will eventually top out in a 4.4%-4.9% range in 2023, which is up on June's 3.6%-4.1% range!

In the Q&A, Jerome Powell was explicit stating, "In light of the high inflation we're seeing, we think that we'll need to bring our funds rate to a restrictive level, and to keep it there for some time. We believe that we need to raise our policy stance overall to a level that is restrictive, putting meaningful downward pressure on inflation."

However, back to the statement, and with little change in the wording, the central bank repeated that it "is highly attentive to the inflation risks" reiterating it "anticipates that ongoing increases in the target range will be appropriate!"

The dot plot showed a 10-9 majority in favour of hiking above 4.25% this year, with policy makers forecasting rate cuts to around 3.9% in 2024, and to 2.9% in 2025 as speculation grows that a fourth-straight 75bps hike at the November meeting is a possibility.

With recent indicators "pointing to a modest growth" in spending and productivity, the Fed downgraded its GDP forecasts to 1.2% in 2023 and 1.7% in 2024, while unemployment is predicted to rise to 4.4% in 2023.

Higher interest rates, slower growth, and higher unemployment are all painful for the public, but not as painful as not bringing down inflation, as Jerome Powell

emphasised, "I wish there were a painless way, but there isn't," and while he doesn't know what the odds of a recession are, "there is a very high likelihood" of below-trend growth for this year and next, while the housing market probably has "to go through a correction" to get to a 'better balance'.

Markets reacted as expected to the Fed's hiking decision and comments from Jerome Powell, with equities turning into a sea of red while the USD index surged to a new high above 111.00.

Unsurprisingly, the NZD and AUD came under pressure reaching levels last seen in Q1 2020. Interestingly, the 10 year T-bond gave up 4bps to yield 3.52%, but it doesn't stop there — tonight we have the BoE and the SNB!

Elsewhere in the world, Putin is back in the news! In his recent cinematic televised address to the nation in Moscow, he has ordered partial mobilisation of an additional 300,000 Russians claiming "To protect homeland, its sovereignty, I consider it necessary to support the decision of the General Staff on partial mobilisation."

He has also ordered an increase in funding to increase Russia's weapon production having committed (and lost) a large amount of weaponry during the ongoing conflict.



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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	69.20					CAD	0.7872	0.8921
NZD/USD	0.5856	0.0000	0.0001	0.0006	0.0022	CHF	0.5661	0.6416
NZD/AUD	0.8821	-0.0003	-0.0013	-0.0027	-0.0039	CNY	4.1457	4.6918
NZD/JPY	84.31	-0.25	-0.84	-1.90	-3.82	DKK	4.4212	5.0108
NZD/EUR	0.5945	-0.0014	-0.0039	-0.0076	-0.0131	FJD	1.3104	1.4851
NZD/GBP	0.5191	-0.0004	-0.0010	-0.0016	-0.0009	HKD	4.5969	5.2100
						KRW	817.41	926.43
AU TWI	62.40					MYR	2.6645	3.0198
AUD/USD	0.6813	0.0002	0.0011	0.0026	0.0042	NOK	6.0567	6.8612
AUD/NZD	0.6535	0.0002	0.0014	0.0028	0.0039	SEK	6.4767	7.3405
AUD/JPY	95.54	-0.25	-0.80	-1.87	-3.93	SGD	0.8299	0.9406
AUD/EUR	0.6737	-0.0014	-0.0034	-0.0067	-0.0120	TWD	18.41	20.87
AUD/GBP	0.5884	-0.0003	-0.0004	-0.0001	0.0016	ZAR	10.38	11.76
USD Index	111.16					EQUITIES		
EUR/USD	0.9848	0.0022	0.0066	0.0133	0.0236		Index	
USD/JPY	143.98	-0.42	-1.43	-3.37	-6.97	NZX50	11,499	
GBP/USD	1.1276	0.0008	0.0020	0.0046	0.0044	ASX200	6,700	
EUR/GBP	0.8732	0.0013	0.0038	0.0084	0.0174	Dow Jones	30,296	
						S&P 500	3,830	
INTEREST RATES		New Zealand		Australia		FTSE100	7,238	
		Mid		Mid		DAX 30	12,767	
30 day bank bills		3.39%		2.55%		Nikkei	27,313	
90 day bank bills		3.74%		2.93%		COMMODITIES		
1 year swap		4.38%		3.65%			USD	
2 year swap		4.44%		3.78%		Brent Crude	90.30	
3 year swap		4.36%		3.74%		Gold	1,671.29	
5 year swap		4.23%		3.80%		Silver	19.59	
10 year swap		4.21%		4.01%		Iron Ore	98.80	
3 year Govt bond		4.02%		3.37%		CRB Index	298.54	
5 year Govt bond		4.02%		3.50%			NZD	
10 year Govt bond		4.11%		3.74%		NZ Carbon	82.75	

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