

# Market Alert

Tuesday 6 September 2022

CURRENCIES	Spot	6mths
NZD/USD	0.6092	-0.0002
NZD/AUD	0.8959	-0.0024
NZD/JPY	85.64	-1.69
NZD/EUR	0.6137	-0.0078
NZD/GBP	0.5289	-0.0014
NZD/CNH	4.2294	-0.0221
AUD/USD	0.6800	0.0016
AUD/EUR	0.6847	-0.0069
EUR/USD	0.9928	0.0123
USD/CNH	6.9417	-0.0344
GBP/USD	1.1514	0.0023
EUR/GBP	0.8620	0.0086

INT RATES	NZ	Australia
OCR/Cash	3.00%	1.85%
90 day bills	3.55%	2.59%
2 year swap	4.30%	3.68%
10 year Govt	4.07%	3.72%

## US Labor Day holiday drains liquidity!

Why yes, we've gone with the US spelling for a change ... and in fact, there's not a lot to 'chat' about, this morning!

Perhaps the biggest surprise overnight was that OPEC+ agreed to a production cut of 100,000 barrels per day from October in an attempt to support prices that have 'tumbled' on fears about a potential global recession-driven demand downturn. Speaking of commodities, the European benchmark Dutch TTF gas futures

contract spiked 26.0% on its open, although it closed the session a mere 15.0% higher!

In the least surprising news of the day, Liz Truss won the Conservative Party elections and is set to replace Boris Johnson as the UK's new Prime Minister. With the UK due to enter a recession, Ms Truss is adopting a strategy of tax cuts funded by an increase in government debt to the tune of GBP40 billion. I've looked but I can't seem to find that page in my 'Economics 101' book! Furthermore, UK composite PMIs fell to 49.6 in August.

BoE member, Catherine Mann, also gave a speech on 'Inflation Persistence and Monetary Policy Strategy' which, interestingly, did not mention anything about falling growth, stating, "*we cannot be complacent in the face of the short-term spikes and medium-term drift in inflation expectations. Acting more forcefully now, to ensure that the drift does not become the norm, is designed to avoid depending on a deeper and longer contraction. Recognising the potential for a shift in the Phillips curve shows how acting sooner and more forcefully can short-circuit the embedding of inflation.*"

A fast and forceful tightening followed by a pause, or even a reversal, is preferable to a gradual approach.

The more we control medium-term inflation expectations now, the less tight long-term monetary policy will need to be.

In Australia, the S&P/Markit PMIs for August saw services fall to 50.2 from 50.9. Meanwhile, manufacturing dropped into contractionary territory to 49.3 from July's 52.5, with the composite at 50.2 from 51.01. While the construction PMIs recovered to 47.9 from July's 45.3, it also remains deeply contractionary. In other pessimistic news, Australian Q3 business inventories rose 0.3%, which was much weaker than the 1.6% expected, while the Melbourne Institute monthly inflation gauge fell 0.5% from July's 1.2%, as the annualised rate increased to 4.9% from 5.4%.

Finally, the Chinese Caixin services PMIs for August printed at 55.0, against forecast at 54.0, while South Korea announced it will intervene in FX markets to protect the won if required.

## The relentless USD-index grind

While Friday's US jobs report was a bit mixed bag, the negative news that Russia had not re-opened the Nord Stream pipeline was the key factor weighing on European commodity markets and the EUR and GBP. Concerns of plummeting Chinese growth saw the onshore CNY fall to lowest level in 2 years at 6.9425 following on from yesterday's fixing just under 6.9000. Interestingly, the NZD and AUD were range-bound during the overnight session, although today's RBA rate announcement should see the 'commodity' currencies take centre stage on the Asian open.



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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	70.70					CAD	0.8006	0.8937
NZD/USD	0.6092	-0.0001	-0.0002	-0.0002	-0.0013	CHF	0.5970	0.6665
NZD/AUD	0.8959	-0.0005	-0.0014	-0.0024	-0.0036	CNY	4.2227	4.7095
NZD/JPY	85.64	-0.22	-0.74	-1.69	-3.65	DKK	4.5620	5.0922
NZD/EUR	0.6137	-0.0013	-0.0039	-0.0078	-0.0147	FJD	1.3416	1.4975
NZD/GBP	0.5289	-0.0003	-0.0009	-0.0014	-0.0013	HKD	4.7817	5.3374
						KRW	834.51	931.50
AU TWI	62.80					MYR	2.7359	3.0539
AUD/USD	0.6813	0.0003	0.0009	0.0016	0.0010	NOK	6.0653	6.7702
AUD/NZD	0.6535	0.0005	0.0016	0.0026	0.0031	SEK	6.5816	7.3465
AUD/JPY	95.57	-0.20	-0.69	-1.66	-3.73	SGD	0.8551	0.9544
AUD/EUR	0.6847	-0.0011	-0.0033	-0.0069	-0.0139	TWD	18.70	20.88
AUD/GBP	0.5904	0.0000	-0.0001	0.0000	0.0008	ZAR	10.44	11.66
USD Index	109.82					<b>EQUITIES</b>		
EUR/USD	0.9928	0.0019	0.0061	0.0123	0.0219		<b>Index</b>	
USD/JPY	140.54	-0.35	-1.19	-2.78	-5.88	NZX50	11,619	
GBP/USD	1.1514	0.0005	0.0014	0.0023	-0.0006	ASX200	6,852	
EUR/GBP	0.8620	0.0012	0.0039	0.0086	0.0186	Dow Jones	31,318	
						S&P 500	3,924	
<b>INTEREST RATES</b>		<b>New Zealand</b>		<b>Australia</b>		FTSE100	7,287	
		<b>Mid</b>		<b>Mid</b>		DAX 30	12,761	
30 day bank bills		3.14%		2.19%		Nikkei	27,620	
90 day bank bills		3.55%		2.59%		<b>COMMODITIES</b>		
1 year swap		4.16%		3.44%			<b>USD</b>	
2 year swap		4.30%		3.68%		Brent Crude	95.23	
3 year swap		4.26%		3.70%		Gold	1,707.82	
5 year swap		4.15%		3.75%		Silver	18.16	
10 year swap		4.15%		3.99%		Iron Ore	95.55	
3 year Govt bond		3.93%		3.28%		CRB Index	304.76	
5 year Govt bond		3.95%		3.44%			<b>NZD</b>	
10 year Govt bond		4.07%		3.72%		NZ Carbon	87.15	

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