

Market Alert

Monday 13 March 2023

CURRENCIES	Spot	6mths
NZD/USD	0.6120	-0.0005
NZD/AUD	0.9320	-0.0077
NZD/JPY	82.85	-2.38
NZD/EUR	0.5747	-0.0067
NZD/GBP	0.5081	-0.0028
NZD/CNH	4.2565	0.0000
AUD/USD	0.6594	0.0049
AUD/EUR	0.6193	-0.0022
EUR/USD	1.0645	0.0114
USD/CNH	6.9377	0.0000
GBP/USD	1.2035	0.0049
EUR/GBP	0.8845	0.0053

INT RATES	NZ	Australia
OCR/Cash	4.75%	3.60%
90 day bills	5.25%	3.69%
2 year swap	5.38%	3.79%
10 year Govt	4.54%	3.67%

US Non-farm payrolls catches everyone out!

Friday night's non-farm payroll numbers caught everyone out with a further 311k jobs added to the US economy in February, against forecasts of 205k. And while everyone was expecting January's 517k to be revised lower, it was only adjusted to 504k highlighting the demand for workers.

But while you could be forgiven for expecting the markets to automatically start pricing in a 50bps hike at next week's FOMC meeting, the fact that the unemployment rate rose to 3.6% from 3.4%, and average hourly earnings only increased 0.2% on the month from 0.3% last month, highlighted an easing in wage

inflation after wage growth slowed to a three-month annualised pace of 3.6% from a 4.4%.

With the rise in the unemployment rate, and an easing in wage inflation, pricing for next week's FOMC meeting is a full 25bps hike, with a 32% chance of a 50bps hike, which is down from 68% on Friday morning. This change in focus saw the NZD, AUD and EUR all make modest gains against the USD, although the USD-index, equities and bond yields all came under significant selling pressure after regulators took control of Silicon Valley Bank ("SVB") after its shares sank sharply!

The biggest bank failure since 2008!

The Dow Jones closed 345 points lower, the S&P 500 and the Nasdaq shed 1.4% and 1.7% respectively, while the US 10-year treasury yield sold off 22bps to 3.70% as the collapse of SVB took precedence over the employment data. SVB saw a run on its deposits after the tech-focused lender failed in its attempt to shore up its balance sheet via an equity raise amid a declining deposit base as clients withdrew funds. The downward spiral of SVB has raised concerns there could be a similar run on other US banks, although regulations added to the US banking system since the 2008 financial crisis would suggest a similar catastrophe is unlikely.

The Federal Deposit Insurance Corporation ("FDIC") and the Fed are currently discussing two different facilities to manage the fallout from the closure of SVB should no buyer be found to take over the bank. One option is for regulators to create a backstop for uninsured deposits at similar institutions, or, for the Fed to create a 'general banking facility' to support other financial institutions with exposures to SVB.

At this stage it appears that SVB will reopen on Monday, under the control of the newly created Deposit Insurance National Bank of Santa Clara. Once that happens, insured depositors with up to USD250,000 in their accounts will be able to access their funds.

Ultimately, whichever way this plays out, the US Government and its various agencies are working quickly to shore up SVB deposits to prevent a run on other US banks.

The week ahead

Without doubt, the markets focus will be on SVB this week as investors will be looking for any signs of contagion within the financial sector, but this week we also have the US inflation and retail sales releases, while we also have the ECB policy meeting. China will update their latest industrial production and retail sales numbers. Closer to home we have the unemployment numbers from Australia, and Q4 GDP in New Zealand.



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Daily Rates

Monday 13 March 2023

FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	70.50					CAD	0.8447	0.9095
NZD/USD	0.6120	0.0000	-0.0002	-0.0005	-0.0023	CHF	0.5638	0.6062
NZD/AUD	0.9320	-0.0012	-0.0036	-0.0077	-0.0159	CNY	4.2605	4.5787
NZD/JPY	82.85	-0.39	-1.17	-2.38	-4.78	DKK	4.2803	4.6118
NZD/EUR	0.5747	-0.0012	-0.0035	-0.0067	-0.0130	FJD	1.3519	1.4566
NZD/GBP	0.5081	-0.0004	-0.0013	-0.0028	-0.0057	HKD	4.8021	5.1740
						KRW	807.99	870.57
AU TWI	60.40					MYR	2.7650	2.9792
AUD/USD	0.6594	0.0008	0.0024	0.0049	0.0087	NOK	6.4769	6.9786
AUD/NZD	1.0710	0.0012	0.0037	0.0086	0.0179	SEK	6.5389	7.0454
AUD/JPY	88.74	-0.32	-0.92	-1.85	-3.71	SGD	0.8255	0.8895
AUD/EUR	0.6193	-0.0005	-0.0014	-0.0022	-0.0036	TWD	18.82	20.27
AUD/GBP	0.5475	0.0002	0.0007	0.0015	0.0031	ZAR	11.20	12.07
USD Index	104.64					EQUITIES		
EUR/USD	1.0645	0.0021	0.0062	0.0114	0.0195		Index	
USD/JPY	134.75	-0.64	-1.87	-3.77	-7.28	NZX50	11,727	
GBP/USD	1.2035	0.0008	0.0026	0.0049	0.0086	ASX200	7,145	
EUR/GBP	0.8845	0.0010	0.0030	0.0053	0.0100	Dow Jones	31,910	
						S&P 500	3,862	
INTEREST RATES			New Zealand		Australia	FTSE100	7,748	
			Mid		Mid	DAX 30	15,428	
30 day bank bills			4.97%		3.58%	Nikkei	28,144	
90 day bank bills			5.25%		3.69%	COMMODITIES		
1 year swap			5.60%		3.87%		USD	
2 year swap			5.38%		3.79%	Brent Crude	82.78	
3 year swap			5.09%		3.78%	Gold	1,868.02	
5 year swap			4.76%		3.65%	Silver	20.51	
10 year swap			4.55%		3.91%	Iron Ore	129.44	
3 year Govt bond			4.88%		3.38%	CRB Index	290.10	
5 year Govt bond			4.64%		3.41%		NZD	
10 year Govt bond			4.54%		3.67%	NZ Carbon	66.00	

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