

# Market Alert

Friday 21 April 2023

CURRENCIES	Spot	6mths
NZD/USD	0.6165	-0.0011
NZD/AUD	0.9251	-0.0080
NZD/JPY	82.81	-2.39
NZD/EUR	0.5626	-0.0060
NZD/GBP	0.4959	-0.0021
NZD/CNH	4.2456	-0.0659
AUD/USD	0.6733	0.0047
AUD/EUR	0.6143	-0.0013
EUR/USD	1.0957	0.0096
USD/CNH	6.8848	-0.0953
GBP/USD	1.2432	0.0029
EUR/GBP	0.8815	0.0055

  

INT RATES	NZ	Australia
OCR/Cash	5.25%	3.60%
90 day bills	5.60%	3.74%
2 year swap	5.12%	3.66%
10 year Govt	4.30%	3.58%

## Why is the RBNZ's forecasting so poor?

I'm not sure but, once again, they struggled after yesterday's NZ inflation report saw headline inflation fall more than most economists expected in Q1, suggesting price pressures have peaked and the central bank may be able to ease back on this hiking cycle! Breaking it down, headline inflation slowed to 6.70%, from 7.20% against forecasts at 6.90% and the RBNZ's forecasts at 7.30%. On a quarterly basis, the prices advanced 1.20%, which was less than the 1.50% forecast by economists. Unfortunately, as is the trend globally, core inflation remains relatively strong, easing to 6.50% from 6.70%, as non-tradeable inflation actually increased 1.70% on the quarter against forecasts of 1.50%.

There was also further good news from the RBNZ's preferred inflation gauge, its 'sectoral factor model' which showed Q1 inflation fell from 5.80% to 5.70% on the year. Following the CPI release, the perception the RBNZ may not have to hike interest rates quite so far saw the local swap curve give up 10-12bps, although I suspect the Governor will still follow through on his 25bps hike in May.

The ECB minutes showed that most policymakers agreed with the 50bps rate increase although some members would have preferred to delay the hike until the full extent of the banking tensions had subsided. Looking ahead, the central bank maintains its view that the inflation risks are tilted to the upside with some policymakers arguing that there was only a small probability the inflation rate would fall back to the low levels as quickly as implied in the March projections.

In other Euro-zone news, consumer confidence increased 1.6 points to -17.5 in April 2023, its highest since February 2022 and above market expectations of -18.5, the ECB's Isabel Schnabel announced that while headline inflation has begun to decline, underlying inflation is proving to be 'sticky' as "inflation momentum is staying high for all components except for energy." German producer prices fell a faster-than-expected 2.60% in March, adding to signs of easing inflation, while PPI on the year slowed to 7.50% from 15.80%.

In the US, the Philadelphia Fed manufacturing index fell from -23.2 to -31.3 points in April, its lowest level since May of 2020, while initial claims rose by 5k to 245k to support the rationale of a softening in the US labour market. Fed President John Williams signalled his support for a May interest-rate hike as "US inflation is still 'too high'" adding, "I expect inflation to ease to 3.25% this year although it will likely take two years to get back to 2.00% inflation target. I expect a gradual rise in the unemployment rate to 4.0%-4.50% over the next year as tighter credit conditions will weigh on growth."

An independent review into the RBA has recommended 51 changes, including that Australia's central bank should set up an expert policy board, hold fewer meetings (8 rather than 11), and give press conferences explaining its decisions. Treasurer Jim Chalmers announced that, in principle, he agreed with all 51 recommendations and would propose legislative changes in advance of implementing them from 1-July 2024.

Despite all the releases, the overnight price action was subdued with little change between last night's NZ/AU close and this morning's open for the local FX and IR markets. Equity and commodity markets are a touch weaker, while the T-bond continues to struggle to maintain momentum above the 3.60% level having fallen 5bps to be at 3.54%.



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# Daily Rates

Friday 21 April 2023

FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	70.20					CAD	0.8312	0.9076
NZD/USD	0.6165	-0.0001	-0.0004	-0.0011	-0.0034	CHF	0.5510	0.6018
NZD/AUD	0.9251	-0.0013	-0.0040	-0.0080	-0.0148	CNY	4.2555	4.6417
NZD/JPY	82.81	-0.38	-1.18	-2.39	-4.77	DKK	4.1926	4.5789
NZD/EUR	0.5626	-0.0010	-0.0031	-0.0060	-0.0114	FJD	1.3457	1.4694
NZD/GBP	0.4959	-0.0004	-0.0012	-0.0021	-0.0037	HKD	4.8402	5.2853
						KRW	816.93	892.06
AU TWI	60.70					MYR	2.7346	2.9861
AUD/USD	0.6733	0.0008	0.0025	0.0047	0.0069	NOK	6.5365	7.1386
AUD/NZD	1.0917	0.0014	0.0047	0.0092	0.0171	SEK	6.3649	6.9512
AUD/JPY	90.43	-0.30	-0.90	-1.84	-3.83	SGD	0.8220	0.8977
AUD/EUR	0.6143	-0.0003	-0.0007	-0.0013	-0.0027	TWD	18.86	20.60
AUD/GBP	0.5416	0.0003	0.0010	0.0024	0.0046	ZAR	11.13	12.16
USD Index	101.88					<b>EQUITIES</b>		
EUR/USD	1.0957	0.0018	0.0053	0.0096	0.0160		<b>Index</b>	
USD/JPY	134.34	-0.60	-1.83	-3.65	-7.05	NZX50	11,880	
GBP/USD	1.2432	0.0008	0.0020	0.0029	0.0021	ASX200	7,362	
EUR/GBP	0.8815	0.0009	0.0027	0.0055	0.0110	Dow Jones	33,711	
						S&P 500	4,119	
<b>INTEREST RATES</b>			<b>New Zealand</b>		<b>Australia</b>	FTSE100	7,903	
			<b>Mid</b>		<b>Mid</b>	DAX 30	15,796	
30 day bank bills			5.39%		3.66%	Nikkei	28,658	
90 day bank bills			5.60%		3.74%	<b>COMMODITIES</b>		
1 year swap			5.62%		3.76%		<b>USD</b>	
2 year swap			5.12%		3.66%	Brent Crude	80.86	
3 year swap			4.75%		3.55%	Gold	2,003.13	
5 year swap			4.41%		3.55%	Silver	25.24	
10 year swap			4.30%		3.86%	Iron Ore	120.26	
3 year Govt bond			4.49%		3.19%	CRB Index	299.30	
5 year Govt bond			4.28%		3.27%		<b>NZD</b>	
10 year Govt bond			4.30%		3.58%	NZ Carbon	60.50	

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