

Market Alert

Friday 19 May 2023

CURRENCIES	Spot	6mths
NZD/USD	0.6225	-0.0015
NZD/AUD	0.9396	-0.0081
NZD/JPY	86.28	-2.62
NZD/EUR	0.5776	-0.0067
NZD/GBP	0.5015	-0.0026
NZD/CNH	4.3889	-0.0757
AUD/USD	0.6623	0.0041
AUD/EUR	0.6147	-0.0020
EUR/USD	1.0771	0.0100
USD/CNH	7.0524	-0.1020
GBP/USD	1.2408	0.0030
EUR/GBP	0.8681	0.0057

INT RATES	NZ	Australia
OCR/Cash	5.25%	3.85%
90 day bills	5.76%	3.97%
2 year swap	5.28%	3.82%
10 year Govt	4.38%	3.57%

Release that valve on that pressure cooker!

There was plenty of hot air released last night with the budget, but let's forget about the 'noise' and concentrate on the facts – as one person said, “*more spending plus more debt equals higher interest rates,*” and that's what we got with the 1-yr and 2-yr swaps substantially higher, while the curve inverted further! While we are all going to have to pay one way or another, at least the treasury is no longer forecasting the country to move into recession although I'm not sure that's 100% correct after Q1 PPI output printed at just 0.3% against a 1.3% forecast. Meanwhile input costs gained 0.2% against an expected 1.5%.

The US workforce remains tight after initial claims fell from the prior week's 18-month high of 264,000 to 242,000 while the Philadelphia Fed's manufacturing index increased to -10.4 in May from April's 3-year low at -31.3. We're still seeing a lot of 'discussion' around the US debt ceiling with June 1st and 2nd shaping to be crunch time with USD97 billion of Treasury payments due. If an agreement is reached, reports suggest the Treasury would need to rebuild its cash buffers which would drain liquidity from the banking sector, raise short-term funding rates, and tighten credit margins. According to BoA, a resolution to the debit ceiling crisis would be the equivalent of a 25bps rate hike.

Perma-bull, James Bullard stated, “*higher rates are insurance against inflation. I'm leaning towards a June hike. The fall in treasury yields has offset the banking sector tightening. I still believe rates are at the low end of sufficiently restrictive (territory) with the top above 6.0%.*” Dallas Fed President Lorie Logan then added, “*the data in the coming weeks could yet show that it is appropriate to skip (pause) a meeting. But as of today, we aren't there yet!*”

With US data performing strongly, and various Fed speakers suggesting June is not the time to pause the hiking cycle, treasury yields, and the USD-index rallied strongly. The US 2-yr and 10-yr yields both firmed to the top of their recent ranges, rallying 12bps and 9bps to be at 4.27% and 3.65%. The USD

closed above the 103.00 level firming to 103.42, this saw the NZD, AUD, and EUR all fall, with the EUR/USD falling out of its recent 1.0800-1.1000 range. Equity markets also had a positive session with bourses 0.50%-1.50% higher, commodity prices were mixed with oil -1.30% lower.

ECB Vice President Luis de Guindos said he's particularly concerned about the accelerating inflation in service sector while BoE Governor Bailey stated, “*I don't envisage the balance sheet returning to where it was before financial crisis.*”

Moving to Asia-Pacific ...

Ahead of this weeksG7, the focus is firmly on the China re-opening with Macquarie suggesting, “*China's reopening recovery appears to be faltering, which has broader implications for the global economy.*” Barclays cut its 2023 GDP forecast to 5.3% from 5.6%, while Nomura Bank emphasised the re-opening was “losing steam” cutting its forecast to 5.5% from 5.9%.

For once, the Australia jobs report was a shocker ... maybe immigration is the answer? Overall, employment contracted by -4,300, against forecasts at 25,000, while the unemployment rate firm to 3.7% against the 3.5% expected. May consumer 1-yr inflation expectations jumped to 5.2% from 4.6%.



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Daily Rates

Friday 19 May 2023

FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	71.80					CAD	0.8400	0.8938
NZD/USD	0.6225	-0.0001	-0.0005	-0.0015	-0.0042	CHF	0.5632	0.5993
NZD/AUD	0.9396	-0.0013	-0.0039	-0.0081	-0.0154	CNY	4.3786	4.6601
NZD/JPY	86.28	-0.42	-1.28	-2.62	-5.20	DKK	4.3031	4.5782
NZD/EUR	0.5776	-0.0011	-0.0033	-0.0067	-0.0138	FJD	1.3657	1.4530
NZD/GBP	0.5015	-0.0004	-0.0013	-0.0026	-0.0050	HKD	4.8722	5.1837
						KRW	831.24	884.39
AU TWI	60.70					MYR	2.8224	3.0029
AUD/USD	0.6623	0.0008	0.0022	0.0041	0.0055	NOK	6.7932	7.2275
AUD/NZD	1.0638	0.0014	0.0043	0.0088	0.0170	SEK	6.5729	6.9931
AUD/JPY	91.81	-0.33	-0.99	-2.03	-4.08	SGD	0.8389	0.8925
AUD/EUR	0.6147	-0.0004	-0.0011	-0.0020	-0.0045	TWD	19.14	20.36
AUD/GBP	0.5336	0.0003	0.0009	0.0018	0.0034	ZAR	12.02	12.79
USD Index	103.52					EQUITIES		
EUR/USD	1.0771	0.0019	0.0053	0.0100	0.0169		Index	
USD/JPY	138.67	-0.65	-1.96	-3.90	-7.36	NZX50	11,976	
GBP/USD	1.2408	0.0008	0.0021	0.0030	0.0025	ASX200	7,237	
EUR/GBP	0.8681	0.0010	0.0028	0.0057	0.0113	Dow Jones	33,571	
						S&P 500	4,185	
INTEREST RATES			New Zealand		Australia	FTSE100	7,742	
			Mid		Mid	DAX 30	16,163	
30 day bank bills			5.60%		3.86%	Nikkei	30,574	
90 day bank bills			5.76%		3.97%	COMMODITIES		
1 year swap			5.85%		3.95%		USD	
2 year swap			5.28%		3.82%	Brent Crude	75.91	
3 year swap			4.85%		3.67%	Gold	1,957.29	
5 year swap			4.45%		3.56%	Silver	23.51	
10 year swap			4.32%		3.89%	Iron Ore	107.38	
3 year Govt bond			4.61%		3.26%	CRB Index	289.18	
5 year Govt bond			4.36%		3.26%		NZD	
10 year Govt bond			4.38%		3.57%	NZ Carbon	51.25	

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