

Market Alert

Monday 22 May 2023

CURRENCIES	Spot	6mths
NZD/USD	0.6270	-0.0020
NZD/AUD	0.9434	-0.0087
NZD/JPY	86.49	-2.68
NZD/EUR	0.5789	-0.0072
NZD/GBP	0.5035	-0.0028
NZD/CNH	4.4022	0.0000
AUD/USD	0.6644	0.0040
AUD/EUR	0.6145	-0.0021
EUR/USD	1.0809	0.0096
USD/CNH	7.0232	0.0000
GBP/USD	1.2444	0.0030
EUR/GBP	0.8678	0.0056

INT RATES	NZ	Australia
OCR/Cash	5.25%	3.85%
90 day bills	5.86%	3.98%
2 year swap	5.48%	3.84%
10 year Govt	4.49%	3.68%

Roll on Wednesday ...

... when the big man steps out of the shadows, into the light, to plunge us all into darkness ... with the expectation being we'll be on the receiving end of another 25bps hike ... although the markets are currently pricing in a 44% chance he'll go 50bps!

Markets were in an optimistic mood as they closed out last week after a Biden official said debt negotiators were making steady progress, echoing Kevin McCarthy's optimism about a possible "agreement in principle" this week. This was viewed as a positive development despite Janet Yellen once again emphasising "a default as soon as 1st June is 'a hard deadline.' I haven't changed my assessment." Meanwhile Joe Biden confirmed he wouldn't agree to a deal on

the debt ceiling deal solely on Republican terms as he left the G7 summit.

The potential for a bank run on the US regional banks appears to have subsided, and with Fed member Neel Kashkari announcing, "I would object to any kind of declaration that we're done lifting interest rates" before adding he is open to a further hike in June, the US 2-year yield had yet another surge to close the week 34bps higher at 4.26%, while the 10-years gained 26bps to close at 3.66%. But while this supported the USD-index above the 103.00 level, the NZD and AUD also made solid gains as the EUR/USD firmed back above the 1.0800 level. Looking specifically at the NZD, it broke back above the mid-points of its recent ranges against the GBP, EUR, and USD, while it reached its highest level against the AUD this year at 0.9448, while the NZD/JPY reached a YTD high at 87.09.

Europe's largest economy, Germany, saw annual producer inflation ease for the seventh straight month to a 25-month low of 4.1% against forecasts at 4.0%. ECB's Christine Lagarde said the "ECB will do what is necessary to deliver price stability. We should not trade-off price stability and financial stability. We can successfully pursue both goals at the same time. The ECB will need to be courageous to take needed decisions to bring inflation back to 2%"

In terms of the G7, there wasn't a great deal to report on as they signalled their readiness to stand by Ukraine in their

battle with Russia by allowing President Zelenskyy the opportunity to win over countries such as Brazil and India on the last day of a summit, following on from the US decision to support training for Ukrainian pilots on F-16s.

It's all go this week!

While the spotlight will remain on the US's debt ceiling negotiations, we also have plenty of central bank activity this week alongside our very own RBNZ. We have the Fed's FOMC minutes from its 3 May meeting, and the PBoC, where it is expected it will maintain its 1-year and 5-year Loan Prime Rates (LPRs) at 3.65% and 4.30%.

From the US, personal income and spending data, PCE prices, durable goods orders, and an update on Q1 GDP growth. We also have May PMI updates from the US, UK, Australia, Euro-zone, Japan, France, and Germany. Finally, we have the inflation released in the UK and retail sales from Australia.

Interestingly ...

JPMorgan has announced it will expand its algorithmic trading offering to Treasury investors, so can we expect a further surge in interest rate volatility? BoA has suggested a 'baby bubble' is forming in tech and AI as it reiterated its call to sell US equities.



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Daily Rates

Monday 22 May 2023

FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	72.00					CAD	0.8467	0.8975
NZD/USD	0.6270	-0.0002	-0.0008	-0.0020	-0.0050	CHF	0.5637	0.5972
NZD/AUD	0.9434	-0.0014	-0.0043	-0.0087	-0.0164	CNY	4.3948	4.6604
NZD/JPY	86.49	-0.43	-1.33	-2.68	-5.30	DKK	4.3206	4.5783
NZD/EUR	0.5789	-0.0012	-0.0036	-0.0072	-0.0141	FJD	1.3711	1.4529
NZD/GBP	0.5035	-0.0005	-0.0014	-0.0028	-0.0054	HKD	4.9001	5.1924
						KRW	830.90	880.46
AU TWI	60.80					MYR	2.8441	3.0137
AUD/USD	0.6644	0.0008	0.0022	0.0040	0.0054	NOK	6.7798	7.1842
AUD/NZD	1.0596	0.0014	0.0045	0.0094	0.0176	SEK	6.5869	6.9798
AUD/JPY	91.74	-0.32	-1.00	-2.03	-4.10	SGD	0.8432	0.8935
AUD/EUR	0.6145	-0.0004	-0.0010	-0.0021	-0.0045	TWD	19.21	20.35
AUD/GBP	0.5335	0.0002	0.0009	0.0019	0.0035	ZAR	12.19	12.92
USD Index	103.19					EQUITIES		
EUR/USD	1.0809	0.0019	0.0054	0.0096	0.0168		Index	
USD/JPY	137.98	-0.64	-1.95	-3.88	-7.28	NZX50	12,100	
GBP/USD	1.2444	0.0007	0.0020	0.0030	0.0022	ASX200	7,280	
EUR/GBP	0.8678	0.0008	0.0029	0.0056	0.0117	Dow Jones	33,426	
						S&P 500	4,192	
INTEREST RATES			New Zealand		Australia	FTSE100	7,757	
			Mid		Mid	DAX 30	16,275	
30 day bank bills			5.68%		3.88%	Nikkei	30,808	
90 day bank bills			5.86%		3.98%	COMMODITIES		
1 year swap			5.93%		3.95%		USD	
2 year swap			5.48%		3.84%	Brent Crude	75.58	
3 year swap			5.03%		3.70%	Gold	1,976.56	
5 year swap			4.59%		3.63%	Silver	23.83	
10 year swap			4.43%		3.95%	Iron Ore	107.10	
3 year Govt bond			4.76%		3.37%	CRB Index	289.74	
5 year Govt bond			4.50%		3.37%		NZD	
10 year Govt bond			4.49%		3.68%	NZ Carbon	54.00	

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