

Market Alert

Thursday 4 May 2023

CURRENCIES	Spot	6mths
NZD/USD	0.6227	-0.0013
NZD/AUD	0.9336	-0.0078
NZD/JPY	84.12	-2.47
NZD/EUR	0.5634	-0.0064
NZD/GBP	0.4959	-0.0024
NZD/CNH	4.3116	-0.0703
AUD/USD	0.6670	0.0041
AUD/EUR	0.6032	-0.0019
EUR/USD	1.1053	0.0099
USD/CNH	6.9240	-0.1000
GBP/USD	1.2556	0.0023
EUR/GBP	0.8803	0.0055

INT RATES	NZ	Australia
OCR/Cash	5.25%	3.85%
90 day bills	5.66%	3.92%
2 year swap	5.15%	3.60%
10 year Govt	4.21%	3.49%

FOMC hikes the Fed Fund range 25bps to 5.00% - 5.25%!

Which was as expected, although there was a subtle change in the statements language omitting “some additional policy firming” may be warranted, to “in determining the extent to which additional policy firming may be appropriate,” implying that the Fed could pause at its next meeting. It should be noted that the forward-looking language is very similar to that used in June 2006, when the Fed mounted one last rate hike during that hiking cycle, although the statement warned inflation remains elevated and the FOMC “remains highly attentive to inflation risks.”

In the Q&A Chairman Powell emphasised, “a decision on a pause was not made today, we will decide on June in June” adding

“that some additional policy firming may be appropriate.” In terms of what would prompt the Fed to hike again, the statement said the FOMC “will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation economic, and financial developments.”

Once again, this statement reiterated that economic growth has been “modest” while “job gains have been robust” and inflation is “elevated.” The Chair also added, “It is a meaningful change to no longer say we anticipate more firming of policy. We won’t have to raise rates quite as high due to banking stresses. Nominal wage growth has shown some signs of easing and job ads are down, but overall, demand far outweighs supply of labour.”

Jerome Powell probably summed it up best when he said, “Inflation has moderated somewhat since the middle of last year, nonetheless inflation pressures continue to run high and the process of getting inflation back down to 2% has a long way to go. It would not be appropriate to cut rates, given our view that inflation will take some time to come down.”

Job data and the financial stability report supports the case for more RBNZ hikes ...

... given, “New Zealand’s financial system is well placed to handle the higher interest-rate environment and international financial disruptions (although) the full extent of the

impact of previous tightening is still to be seen. To date there have been limited signs of distress in bank lending portfolios (although) cash flow pressures among households, and in some business sectors, are growing. We intend to ease the LVR settings reflecting current lending activity presents low risks to the financial system.”

Local data also backed this up with the labour market remaining extremely tight after employment jumped 0.8% on the quarter and 2.5% on the year to generate an unemployment rate at 3.4%. Incredibly, the participation rate is now at 72.0%! Furthermore, private wages gained 0.9% on the quarter while average hourly earnings jumped 2.1% over the same timeframe, and an incredible 7.6% on the year!

Following from Australia’s poor Judo Bank manufacturing PMI report, the services report exploded to 53.7 from 48.6, which saw the composite increase to 53.0. Australians are also continuing to spend at pace after March retail sales jumped to 0.4%.

So, what does it all mean?

With the Fed ‘having- a-fiver-each-way,’ US equity markets fell into negative territory easing -0.5%, while treasury yields also contracted with the 2-yrs and 10-yrs easing -11bps and -7bps to yield 3.87% and 3.36% respectfully. The USD-index also eased off, which saw the EUR rally 1.0%, although the NZD and AUD are flat from last nights close.



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Daily Rates

Thursday 4 May 2023

FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	71.30					CAD	0.8481	0.9083
NZD/USD	0.6227	-0.0001	-0.0004	-0.0013	-0.0045	CHF	0.5513	0.5906
NZD/AUD	0.9336	-0.0012	-0.0039	-0.0078	-0.0150	CNY	4.3104	4.6117
NZD/JPY	84.12	-0.41	-1.23	-2.47	-4.90	DKK	4.1966	4.4951
NZD/EUR	0.5634	-0.0011	-0.0033	-0.0064	-0.0127	FJD	1.3599	1.4566
NZD/GBP	0.4959	-0.0004	-0.0013	-0.0024	-0.0044	HKD	4.8881	5.2359
						KRW	830.81	889.91
AU TWI	60.30					MYR	2.7710	2.9682
AUD/USD	0.6670	0.0007	0.0023	0.0041	0.0052	NOK	6.7041	7.1810
AUD/NZD	1.0706	0.0013	0.0043	0.0085	0.0166	SEK	6.3879	6.8424
AUD/JPY	90.09	-0.32	-0.96	-1.92	-3.85	SGD	0.8285	0.8874
AUD/EUR	0.6032	-0.0004	-0.0011	-0.0019	-0.0041	TWD	19.14	20.50
AUD/GBP	0.5312	0.0002	0.0007	0.0018	0.0038	ZAR	11.39	12.20
USD Index	101.36					EQUITIES		
EUR/USD	1.1053	0.0019	0.0056	0.0099	0.0158		Index	
USD/JPY	135.05	-0.64	-1.89	-3.69	-6.82	NZX50	11,908	
GBP/USD	1.2556	0.0009	0.0020	0.0023	0.0005	ASX200	7,197	
EUR/GBP	0.8803	0.0009	0.0027	0.0055	0.0112	Dow Jones	33,414	
						S&P 500	4,092	
INTEREST RATES			New Zealand		Australia	FTSE100	7,788	
			Mid		Mid	DAX 30	15,815	
30 day bank bills			5.50%		3.89%	Nikkei	29,158	
90 day bank bills			5.66%		3.92%	COMMODITIES		
1 year swap			5.68%		3.84%		USD	
2 year swap			5.15%		3.60%	Brent Crude	72.01	
3 year swap			4.72%		3.46%	Gold	2,034.62	
5 year swap			4.31%		3.44%	Silver	25.49	
10 year swap			4.17%		3.76%	Iron Ore	106.01	
3 year Govt bond			4.46%		3.16%	CRB Index	282.94	
5 year Govt bond			4.20%		3.19%		NZD	
10 year Govt bond			4.21%		3.49%	NZ Carbon	53.25	

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