

Market Alert

Thursday 8 June 2023

CURRENCIES	Spot	6mths
NZD/USD	0.6034	-0.0007
NZD/AUD	0.9074	-0.0057
NZD/JPY	84.63	-2.54
NZD/EUR	0.5643	-0.0062
NZD/GBP	0.4853	-0.0015
NZD/CNH	4.3143	-0.0723
AUD/USD	0.6651	0.0033
AUD/EUR	0.6218	-0.0031
EUR/USD	1.0694	0.0104
USD/CNH	7.1476	-0.1110
GBP/USD	1.2433	0.0022
EUR/GBP	0.8601	0.0067

INT RATES	NZ	Australia
OCR/Cash	5.50%	4.10%
90 day bills	5.72%	4.23%
2 year swap	5.28%	4.28%
10 year Govt	4.51%	3.91%

Well, that was a surprise!

After implying an end to their hiking cycle at their January meeting, the Bank of Canada unexpectedly raised its overnight rate by 25bps to 4.75%. Financial markets were anticipating interest rates would remain on hold for a third consecutive meeting. Borrowing costs are now at a new 22-year high, as policymakers admitted that monetary policy was not sufficiently restrictive to bring supply and demand back into balance and return inflation to their 2% target.

Australian growth stalls

The Australian economy grew 0.2% in Q1, which was slightly lower than forecasts at 0.3% and Q4's 0.5%, and

it was a similar story on the annualised numbers with growth at 2.3%, which was below forecasts at 2.4% and the prior quarter's 2.7% print. Digging into the detail, it made for some pretty poor reading with household and government spending subdued at 0.1%, productivity contracting -0.3%, while the Australian household savings ratio decreased to 3.7% from 4.4%, its lowest level since June 2008!

We also had RBA Governor Lowe give his traditional post-meeting speech where he stated, *"It's perfectly understandable for the lowest paid workers to be compensated for inflation, but we will get into trouble if we accept that all workers need to be compensated for inflation. There hasn't been any shift in the RBA's inflation tolerance, what has changed in recent months is the RBA's assessment of these risks. Australians shouldn't fall into a state of despair (as) there is a path back to better times and increasing real wages."*

Nevertheless, after the RBA's second successive 'surprise' rate hike, Goldmans have upgraded their cash rate peak from 4.35% to 4.85% in September 2023, although Morgan Stanley says the RBA will undertake a 'one-and-done' approach as *"It takes a few months for those rate rises to drain bank accounts. We're talking about a Q3 phenomenon where the consumer will have adjusted significantly. A number of consumer companies have recently announced earnings downgrades indicating households have already capitulated to the cost of living."*

Looking at the other data releases ...

... the US trade deficit widened to a 6-month high at USD74.6bn against forecasts at USD75.2bn, the Atlanta Fed GDPNow forecaster was revised to 2.2% from 2.0%, while consumer credit increased to USD23.01bn from March's USD22.83bn. In China, exports and imports fell on the year in USD terms after exports plummeted -7.5% while imports fell -4.5%.

In other news, the VIX index fell below 14 for the first time since Covid as markets become increasing confident that the Fed is nearing the end of its hiking cycle, while Congress will propose legislation that will bring down credit card charges.

OMG ... following the LIV/PGA tie-up, its being reported Lionel Messi will snub a humongous pay cheque to play in Saudi Arabia and will sign for David Beckham's Inter Miami.

There is no doubt financial markets were caught out by the surprise BoC rate hike, with the pain felt the most by the NASDAQ which fell -1.4%, although most other international bourses were flat. Bond markets also took an exception with the yield on the US 2 and 10-year treasuries rallying 4 and 9bps to reach 4.56% and 3.79% respectively, while the carry currencies came under selling pressure with the NZD being the worst performer falling -0.6% below the 0.6050 level while the AUD eased back -0.3%.



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Daily Rates

Thursday 8 June 2023

FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	70.30					CAD	0.8068	0.8894
NZD/USD	0.6034	-0.0001	-0.0003	-0.0007	-0.0024	CHF	0.5493	0.6056
NZD/AUD	0.9074	-0.0010	-0.0031	-0.0057	-0.0103	CNY	4.3047	4.7448
NZD/JPY	84.63	-0.41	-1.28	-2.54	-5.04	DKK	4.2023	4.6320
NZD/EUR	0.5643	-0.0011	-0.0033	-0.0062	-0.0125	FJD	1.3314	1.4676
NZD/GBP	0.4853	-0.0004	-0.0010	-0.0015	-0.0022	HKD	4.7318	5.2156
						KRW	788.63	869.93
AU TWI	61.50					MYR	2.7726	3.0561
AUD/USD	0.6651	0.0006	0.0019	0.0033	0.0044	NOK	6.6661	7.3477
AUD/NZD	1.1017	0.0011	0.0036	0.0067	0.0115	SEK	6.5750	7.2473
AUD/JPY	93.25	-0.36	-1.10	-2.25	-4.59	SGD	0.8141	0.8974
AUD/EUR	0.6218	-0.0005	-0.0015	-0.0031	-0.0070	TWD	18.55	20.45
AUD/GBP	0.5349	0.0002	0.0007	0.0016	0.0036	ZAR	11.52	12.70
USD Index	104.15					EQUITIES		
EUR/USD	1.0694	0.0019	0.0055	0.0104	0.0189		Index	
USD/JPY	140.20	-0.67	-2.05	-4.04	-7.78	NZX50	11,759	
GBP/USD	1.2433	0.0008	0.0018	0.0022	0.0001	ASX200	7,118	
EUR/GBP	0.8601	0.0010	0.0031	0.0067	0.0153	Dow Jones	33,665	
						S&P 500	4,270	
INTEREST RATES			New Zealand		Australia	FTSE100	7,624	
			Mid		Mid	DAX 30	15,961	
30 day bank bills			5.63%		4.10%	Nikkei	31,914	
90 day bank bills			5.72%		4.23%	COMMODITIES		
1 year swap			5.75%		4.33%		USD	
2 year swap			5.28%		4.28%	Brent Crude	77.00	
3 year swap			4.88%		4.12%	Gold	1,940.49	
5 year swap			4.50%		3.90%	Silver	23.45	
10 year swap			4.38%		4.13%	Iron Ore	108.59	
3 year Govt bond			4.64%		3.75%	CRB Index	289.77	
5 year Govt bond			4.44%		3.70%		NZD	
10 year Govt bond			4.51%		3.91%	NZ Carbon	56.50	

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