

# Market Alert

Tuesday 18 July 2023

| CURRENCIES | Spot   | 6mths   |
|------------|--------|---------|
| NZD/USD    | 0.6332 | -0.0003 |
| NZD/AUD    | 0.9312 | -0.0057 |
| NZD/JPY    | 87.79  | -2.64   |
| NZD/EUR    | 0.5631 | -0.0055 |
| NZD/GBP    | 0.4839 | 0.0001  |
| NZD/CNH    | 4.5441 | -0.0765 |
| AUD/USD    | 0.6822 | 0.0039  |
| AUD/EUR    | 0.6066 | -0.0023 |
| EUR/USD    | 1.1242 | 0.0104  |
| USD/CNH    | 7.1767 | -0.1191 |
| GBP/USD    | 1.3081 | -0.0009 |
| EUR/GBP    | 0.8593 | 0.0085  |

  

| INT RATES    | NZ    | Australia |
|--------------|-------|-----------|
| OCR/Cash     | 5.50% | 4.10%     |
| 90 day bills | 5.68% | 4.35%     |
| 2 year swap  | 5.37% | 4.37%     |
| 10 year Govt | 4.60% | 4.05%     |

## Chinese woes weigh on markets.

The Chinese 're-opening' continues to struggle for momentum after Q2 GDP grew by 0.8% on a seasonally adjusted basis, slightly ahead of market forecasts at 0.5%, although it was considerably lower than Q1's 2.2% surge. Unfortunately, base effects weighed on the annual print as it 'only' reached 6.3% against forecasts at 7.3%, although it was better than Q1's 4.5%.

The weaker than expected GDP release saw most forecasters downgrade their projections for the wider economy with CitiBank, Morgan Stanley and JPMorgan all cutting their GDP forecasts to 5.0% for the year. China's National Bureau of Statistics (NBS) also confirmed that while, "The national economy showed good momentum of recovery in H1, the foundation of the domestic recovery is not solid. The

economy is gradually recovering from the pandemic effects and is expected to improve further. China is confident and capable of achieving its economic growth targets." In other headlines, retail sales increased by their lowest level in 5-months at 3.1%, against forecasts at 3.2%, while industrial output increased 4.4%. With consumer spending weakening in June, and property investment contracting, expect further calls for additional stimulus.

The disappointing growth figures for China weighed on investors' risk appetites with international bourses mixed ahead of the US Q2 reporting season, while commodity markets came under selling pressure as oil prices fell -2.0%. International bond yields were predominately flat, while there was little movement from the USD with the NZD/USD and AUD/USD easing lower while the EUR/USD was flat.

In the US, the NY Fed Empire manufacturing index decreased 5.5 points to 1.1, although it beat expectations for a -3.5 contraction.

It's not a good look but the last positive in the NZ economy, services PMIs, has finally collapsed falling from 53.3 to 50.1 in June as, "activity levels for the last 3-months have all been below the long-term average."

Australian Treasurer Jim Chalmers announced, "As the Reserve Bank and the Treasury have forecast, inflation (should) moderate over the coming months while they expect a tick up in unemployment as well. I think the expected slowdown in those forecasts will be significant, and that will

have implications for the unemployment rate."

## While the inflation debate suggests rates will remain higher for longer!

BlackRock CEO Larry Fink announced, "I think we've seen a low in inflation, and I think inflation can be sticky between 3.0% and 4.0%. If I'm right about job creation, the need for labour, and how that's going to elevate wages, we're going to be in a period of 3.0%-4.0% inflation. (This) will translate into a Fed that I think is going to be reluctant to turn off its platform of raising rates." He also added that prices for energy, housing and used cars could start to rise again in the coming months.

Against this, the IMF announced, "Global headline inflation appears to have peaked in most of the G20 countries, particularly the advanced economies, (although) core inflation remains well above central bank targets. A reduction in supply chain disruptions and lower goods demand means likely we'll see disinflationary pressures from goods. However, services inflation - which is now the major driver of core inflation - is expected to take longer to decline. In the fight against inflation there are some early signs of monetary policy transmitting to activity, with bank lending standards tightening in the Euro-area and the US. That said, policymakers should avoid 'premature celebrations.' Lessons from previous inflationary episodes show that easing policy too early can undo progress on inflation."



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# Daily Rates

Tuesday 18 July 2023

| FX                    | Spot   | FECs (mid) |                    |         |                  | Spot Mid           |              |        |
|-----------------------|--------|------------|--------------------|---------|------------------|--------------------|--------------|--------|
|                       | Mid    | 1mth       | 3mths              | 6mths   | 12mths           | NZD/...            | AUD/...      |        |
| NZ TWI                | 72.60  |            |                    |         |                  | CAD                | 0.8346       | 0.8994 |
| NZD/USD               | 0.6332 | -0.0001    | -0.0002            | -0.0003 | -0.0020          | CHF                | 0.5443       | 0.5865 |
| NZD/AUD               | 0.9312 | -0.0011    | -0.0030            | -0.0057 | -0.0101          | CNY                | 4.5391       | 4.8890 |
| NZD/JPY               | 87.79  | -0.46      | -1.28              | -2.64   | -5.12            | DKK                | 4.1954       | 4.5201 |
| NZD/EUR               | 0.5631 | -0.0010    | -0.0027            | -0.0055 | -0.0108          | FJD                | 1.3685       | 1.4744 |
| NZD/GBP               | 0.4839 | -0.0002    | -0.0002            | 0.0001  | 0.0010           | HKD                | 4.9480       | 5.3309 |
|                       |        |            |                    |         |                  | KRW                | 800.19       | 862.12 |
| AU TWI                | 62.10  |            |                    |         |                  | MYR                | 2.8728       | 3.0951 |
| AUD/USD               | 0.6822 | 0.0007     | 0.0020             | 0.0039  | 0.0049           | NOK                | 6.3500       | 6.8414 |
| AUD/NZD               | 1.0772 | 0.0012     | 0.0033             | 0.0064  | 0.0100           | SEK                | 6.4797       | 6.9811 |
| AUD/JPY               | 94.59  | -0.38      | -1.08              | -2.28   | -4.56            | SGD                | 0.8363       | 0.9010 |
| AUD/EUR               | 0.6066 | -0.0004    | -0.0010            | -0.0023 | -0.0053          | TWD                | 19.63        | 21.15  |
| AUD/GBP               | 0.5214 | 0.0005     | 0.0014             | 0.0033  | 0.0067           | ZAR                | 11.41        | 12.30  |
| USD Index             | 99.83  |            |                    |         |                  | <b>EQUITIES</b>    |              |        |
| EUR/USD               | 1.1242 | 0.0018     | 0.0050             | 0.0104  | 0.0180           |                    | <b>Index</b> |        |
| USD/JPY               | 138.64 | -0.70      | -1.98              | -4.07   | -7.68            | NZX50              | 11,939       |        |
| GBP/USD               | 1.3081 | 0.0002     | -0.0001            | -0.0009 | -0.0075          | ASX200             | 7,299        |        |
| EUR/GBP               | 0.8593 | 0.0012     | 0.0037             | 0.0085  | 0.0179           | Dow Jones          | 34,633       |        |
|                       |        |            |                    |         |                  | S&P 500            | 4,529        |        |
| <b>INTEREST RATES</b> |        |            | <b>New Zealand</b> |         | <b>Australia</b> | FTSE100            | 7,406        |        |
|                       |        |            | <b>Mid</b>         |         | <b>Mid</b>       | DAX 30             | 16,069       |        |
| 30 day bank bills     |        |            | 5.63%              |         | 4.15%            | Nikkei             | 32,391       |        |
| 90 day bank bills     |        |            | 5.68%              |         | 4.35%            | <b>COMMODITIES</b> |              |        |
| 1 year swap           |        |            | 5.77%              |         | 4.49%            |                    | <b>USD</b>   |        |
| 2 year swap           |        |            | 5.37%              |         | 4.39%            | Brent Crude        | 78.42        |        |
| 3 year swap           |        |            | 5.03%              |         | 4.24%            | Gold               | 1,955.09     |        |
| 5 year swap           |        |            | 4.64%              |         | 4.29%            | Silver             | 24.84        |        |
| 10 year swap          |        |            | 4.49%              |         | 4.42%            | Iron Ore           | 112.38       |        |
| 3 year Govt bond      |        |            | 4.88%              |         | 3.96%            | CRB Index          | 298.67       |        |
| 5 year Govt bond      |        |            | 4.65%              |         | 3.91%            |                    | <b>NZD</b>   |        |
| 10 year Govt bond     |        |            | 4.60%              |         | 4.05%            | NZ Carbon          | 49.95        |        |

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