

Market Alert

Friday 28 July 2023

| CURRENCIES | Spot | 6mths |
|------------|--------|---------|
| NZD/USD | 0.6176 | -0.0001 |
| NZD/AUD | 0.9214 | -0.0058 |
| NZD/JPY | 85.91 | -2.55 |
| NZD/EUR | 0.5632 | -0.0055 |
| NZD/GBP | 0.4829 | -0.0001 |
| NZD/CNH | 4.4295 | -0.0733 |
| AUD/USD | 0.6704 | 0.0041 |
| AUD/EUR | 0.6112 | -0.0023 |
| EUR/USD | 1.0966 | 0.0104 |
| USD/CNH | 7.1715 | -0.1178 |
| GBP/USD | 1.2789 | 0.0000 |
| EUR/GBP | 0.8574 | 0.0080 |

| INT RATES | NZ | Australia |
|--------------|-------|-----------|
| OCR/Cash | 5.50% | 4.10% |
| 90 day bills | 5.70% | 4.33% |
| 2 year swap | 5.42% | 4.38% |
| 10 year Govt | 4.73% | 3.99% |

Positioning ahead of BoJ

Markets are positioning ahead of tonight's BoJ announcement, and media reports that policymakers will be discussing a tweaking of the central banks 'Yield Curve Control' policy, which currently caps long term yields at 0.50%. Tokyo inflation data is released today and expected to show a decline to below 3.0% for the first time since September, down from a peak of 4.4% earlier in the year.

The potential for BoJ policy changes prompted a sharp strengthening in the JPY overnight, with the USD/JPY dropping from 141.20 to 138.80 and the NZD/JPY plunging from 87.80 to 85.80. The US 10-year treasury yield was also given a swift lift, up 12bp and now

close to the 4.00% level again, while US equities fell. In a jittery night for markets the EUR/USD dropped sharply from 1.1150 to below 1.1000, led by USD moves.

Eurozone interest rate hike

Following hot on the heels of the Fed, the ECB has raised interest rates in the eurozone once again, taking the deposit rate to a record high of 3.75% - a level last seen in 2000. It is the ninth hike in this tightening cycle. As in most parts of the world, the eurozone has been hit by rising food and energy prices that have weighed on households, with inflation running at 5.5%.

The eurozone is already in recession, with the economy contracting by 0.1% in the March quarter, after also shrinking in the final three months of 2022. In delivering the hike, the ECB noted that previous rate increases were showing signs of working and were "increasingly dampening demand, which is an important factor in bring inflation back to target". Market pricing has one further hike priced in before the end of the year, although the ECB has dropped forward guidance and further hikes will be dependent on data.

The downbeat Chinese data trend continued, with Chinese industrial profits extending this year's sharp declines into a now six-month trend as waning demand took a toll on companies' profit margins. Data from the National Bureau

of Statistics showed that for the first half of this year industrial firms' profits fell 16.8% year-on-year, the data reinforcing a frail economic recovery that brought weaker than expected 6.3% growth in the second quarter.

NZ carbon costs on the rise

After halving in value over the start of the year, the spot price for NZUs has almost doubled this week following the New Zealand government's announced changes to the Emissions Trading Scheme price controls and settings. Following a successful legal challenge, auction price floor settings will rise from the current level of \$33.06 to \$60 in December 2023. It will be \$64 in 2024. The number of units to be auctioned has also been reduced. In a 'market' susceptible to political risk, considerable uncertainty remains, with the government currently consulting on a redesign of Emissions Trading Scheme and the place of forestry within the scheme.



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Daily Rates

Friday 28 July 2023

| FX | Spot | FECs (mid) | | | | Spot Mid | | |
|-----------------------|--------|------------|--------------------|---------|------------------|--------------------|--------------|--------|
| | Mid | 1mth | 3mths | 6mths | 12mths | NZD/... | AUD/... | |
| NZ TWI | 71.50 | | | | | CAD | 0.8175 | 0.8874 |
| NZD/USD | 0.6176 | 0.0000 | 0.0000 | -0.0001 | -0.0011 | CHF | 0.5370 | 0.5830 |
| NZD/AUD | 0.9214 | -0.0010 | -0.0028 | -0.0058 | -0.0109 | CNY | 4.4251 | 4.8027 |
| NZD/JPY | 85.91 | -0.41 | -1.26 | -2.55 | -5.07 | DKK | 4.1964 | 4.5552 |
| NZD/EUR | 0.5632 | -0.0009 | -0.0026 | -0.0055 | -0.0112 | FJD | 1.3511 | 1.4666 |
| NZD/GBP | 0.4829 | -0.0001 | -0.0002 | -0.0001 | 0.0002 | HKD | 4.8192 | 5.2312 |
| | | | | | | KRW | 792.33 | 860.06 |
| AU TWI | 62.10 | | | | | MYR | 2.7903 | 3.0289 |
| AUD/USD | 0.6704 | 0.0007 | 0.0021 | 0.0041 | 0.0058 | NOK | 6.2983 | 6.8368 |
| AUD/NZD | 1.0849 | 0.0011 | 0.0032 | 0.0065 | 0.0099 | SEK | 6.5000 | 7.0557 |
| AUD/JPY | 94.14 | -0.35 | -1.09 | -2.21 | -4.45 | SGD | 0.8224 | 0.8927 |
| AUD/EUR | 0.6112 | -0.0003 | -0.0010 | -0.0023 | -0.0053 | TWD | 19.36 | 21.02 |
| AUD/GBP | 0.5242 | 0.0005 | 0.0014 | 0.0031 | 0.0061 | ZAR | 11.02 | 11.96 |
| USD Index | 101.78 | | | | | EQUITIES | | |
| EUR/USD | 1.0966 | 0.0016 | 0.0048 | 0.0104 | 0.0191 | | Index | |
| USD/JPY | 139.04 | -0.67 | -2.04 | -4.10 | -7.84 | NZX50 | 11,954 | |
| GBP/USD | 1.2789 | 0.0002 | 0.0001 | 0.0000 | -0.0036 | ASX200 | 7,456 | |
| EUR/GBP | 0.8574 | 0.0011 | 0.0035 | 0.0080 | 0.0171 | Dow Jones | 35,280 | |
| | | | | | | S&P 500 | 4,547 | |
| INTEREST RATES | | | New Zealand | | Australia | FTSE100 | 7,693 | |
| | | | Mid | | Mid | DAX 30 | 16,406 | |
| 30 day bank bills | | | 5.66% | | 4.16% | Nikkei | 32,891 | |
| 90 day bank bills | | | 5.70% | | 4.33% | COMMODITIES | | |
| 1 year swap | | | 5.78% | | 4.43% | | USD | |
| 2 year swap | | | 5.42% | | 4.40% | Brent Crude | 83.95 | |
| 3 year swap | | | 5.07% | | 4.25% | Gold | 1,945.10 | |
| 5 year swap | | | 4.68% | | 4.33% | Silver | 24.11 | |
| 10 year swap | | | 4.51% | | 4.50% | Iron Ore | 112.89 | |
| 3 year Govt bond | | | 5.03% | | 3.85% | CRB Index | 312.81 | |
| 5 year Govt bond | | | 4.78% | | 3.81% | | NZD | |
| 10 year Govt bond | | | 4.73% | | 3.99% | NZ Carbon | 61.50 | |

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