

Market Alert

Monday 28 August 2023

CURRENCIES	Spot	6mths
NZD/USD	0.5894	0.0002
NZD/AUD	0.9217	-0.0060
NZD/JPY	86.41	-2.56
NZD/EUR	0.5456	-0.0052
NZD/GBP	0.4685	0.0000
NZD/CNH	4.3136	0.0000
AUD/USD	0.6407	0.0043
AUD/EUR	0.5931	-0.0019
EUR/USD	1.0799	0.0106
USD/CNH	7.2939	0.0000
GBP/USD	1.2577	0.0002
EUR/GBP	0.8575	0.0080

INT RATES	NZ	Australia
OCR/Cash	5.50%	4.10%
90 day bills	5.66%	4.19%
2 year swap	5.55%	4.19%
10 year Govt	5.11%	4.23%

Fed ready to hike again

Fed Chair Jerome Powell stuck to the now very familiar script for his Jackson Hole speech, the commentary noting both progress made on easing inflation as well as risks from the surprising strength of the US economy.

"We will proceed carefully as we decide whether to tighten further or, instead, to hold the policy rate constant and await further data," Powell said in a keynote address. *"It is the Fed's job to bring inflation down to our 2% goal, and we will do so."*

The hawkish rhetoric from Fed officials is certainly keeping the prospect of further interest rate hikes alive and perversely, could help the Fed avoid actually having to deliver another hike. Markets have certainly bought the story, modestly increasing the odds of a hike

by the end of the year despite headline inflation retreating swiftly after peaking above 9.0% at the middle of last year. Markets are also in sync with the 'soft landing' narrative for the US economy, which would be a remarkable outcome if achieved, given the 5.25% of hikes delivered in rapid succession and talk that the highest interest rates in 22 years will need to stay 'higher for longer'.

Markets will be watching Friday's US monthly non-farm payrolls data for any sign of labour market softening, a key requisite for getting the inflation genie back in its bottle. Markets expect the data to show 170,000 jobs added in August, which would be the slowest pace in a number of years.

There was little market reaction to Powell's speech, the benchmark US 10-year Treasury yield starts today at 4.24%, roughly where it was a week ago. At 5.08%, the more policy-sensitive 2-year yield is near the highs seen briefly before the GFC, (and back in 2000 before that). The USD ended the week strongly, taking the NZD/USD back under 0.5900, and the AUD/USD below 0.6400. The USD/JPY broke through resistance to trade near 147.00, renewing questions about whether Japan will intervene to support its currency after signalling they're watching the yen's movements closely. The stronger USD and Fed's hawkish stance will also likely see further intervention from the Bank of China this week as it works to slow the depreciation of the yuan.

China announces new support measures

Chinese authorities have announced measures to support its equity market, lowering the stamp duty on trades, cutting handling fees and pledging to slow the rate of initial public offerings. The CSI 300 Index has declined about 4.0% in 2023, prompting authorities to urge pension funds and large banks to increase equity purchases to support the market.

New rules were also announced for first-home mortgages, which will allow more homebuyers to access preferential down payments and interest rates for first-home loans, in a bid to prop up its slumping property market. Households with at least one member who does not have a home registered under their name can be counted as 'first-time buyers' and qualify for the lower loan rates.

Chinese industrial profits fell 6.7% in the July year, continuing the now seven-month decline due to weakening demand. Earnings have decreased by 15.5% for the year to July, with profits down 8.3% in June.



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Daily Rates

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FX	Spot	FECs (mid)				Spot Mid	
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...
NZ TWI	69.60					CAD	0.8016 0.8709
NZD/USD	0.5894	0.0000	0.0000	0.0002	0.0001	CHF	0.5213 0.5655
NZD/AUD	0.9217	-0.0011	-0.0030	-0.0060	-0.0119	CNY	4.3091 4.6710
NZD/JPY	86.41	-0.43	-1.26	-2.56	-5.06	DKK	4.0692 4.4233
NZD/EUR	0.5456	-0.0008	-0.0024	-0.0052	-0.0110	FJD	1.3180 1.4327
NZD/GBP	0.4685	-0.0001	0.0000	0.0000	0.0001	HKD	4.6233 5.0257
						KRW	780.09 847.99
AU TWI	60.10					MYR	2.7336 2.9716
AUD/USD	0.6407	0.0007	0.0021	0.0043	0.0081	NOK	6.2910 6.8385
AUD/NZD	1.0836	0.0011	0.0034	0.0067	0.0142	SEK	6.5158 7.0829
AUD/JPY	93.72	-0.36	-1.07	-2.19	-4.36	SGD	0.7989 0.8685
AUD/EUR	0.5931	-0.0002	-0.0007	-0.0019	-0.0045	TWD	18.76 20.39
AUD/GBP	0.5093	0.0005	0.0016	0.0033	0.0066	ZAR	10.97 11.93
USD Index	104.19					EQUITIES	
EUR/USD	1.0799	0.0016	0.0048	0.0106	0.0215		Index
USD/JPY	146.41	-0.72	-2.15	-4.38	-8.59	NZX50	11,468
GBP/USD	1.2577	0.0002	0.0002	0.0002	-0.0008	ASX200	7,115
EUR/GBP	0.8575	0.0010	0.0036	0.0080	0.0173	Dow Jones	34,347
						S&P 500	4,406
INTEREST RATES			New Zealand		Australia	FTSE100	7,339
			Mid		Mid	DAX 30	15,632
30 day bank bills			5.63%		4.11%	Nikkei	31,624
90 day bank bills			5.66%		4.19%	COMMODITIES	
1 year swap			5.78%		4.28%		USD
2 year swap			5.55%		4.20%	Brent Crude	84.48
3 year swap			5.27%		4.11%	Gold	1,914.53
5 year swap			4.97%		4.26%	Silver	24.22
10 year swap			4.85%		4.50%	Iron Ore	108.21
3 year Govt bond			5.28%		3.90%	CRB Index	311.94
5 year Govt bond			5.10%		3.94%		NZD
10 year Govt bond			5.11%		4.23%	NZ Carbon	67.00

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