

Market Alert

Tuesday 19 September 2023

CURRENCIES	Spot	6mths
NZD/USD	0.5913	0.0000
NZD/AUD	0.9188	-0.0059
NZD/JPY	87.29	-2.58
NZD/EUR	0.5534	-0.0048
NZD/GBP	0.4775	-0.0001
NZD/CNH	4.3115	-0.0391
AUD/USD	0.6434	0.0041
AUD/EUR	0.6021	-0.0013
EUR/USD	1.0682	0.0089
USD/CNH	7.2918	-0.0660
GBP/USD	1.2381	0.0001
EUR/GBP	0.8628	0.0069

INT RATES	NZ	Australia
OCR/Cash	5.50%	4.10%
90 day bills	5.70%	4.17%
2 year swap	5.54%	4.20%
10 year Govt	5.11%	4.28%

The yin verse the yang!

The yin and yang of fixed income markets continues to come to the fore, with bond markets increasingly starting to price in a recession next year, with options traders increasing their positioning via SOFR-linked options, with one trader positioned for a 3.0% fixing rate next year, contrasting sharply with swaps traders, who are broadly aligned with the Fed's higher-for-longer mantra. Meanwhile, the Bank of International Settlements warned that hedge fund bets could spark financial market turmoil after short positions in 2-year Treasury futures reached record highs in August! This saw some wild price action in the bond markets, with the German 10-year bund surging to a 6-month high at 2.7%, while the US 10-year yield eased slightly to 4.31%. The USD-index had another 'whippy' session, but ultimately closed

lower on the day, as did equity markets ahead of this week's central bank meetings. Unfortunately, oil continued its grind higher with Brent closing in on the USD95 level.

US retailers are expected to add 410k seasonal jobs this holiday season, the lowest number since 2008. Increasing labour costs and low consumer confidence have led to the expected drop, down from 519k in in 2022's fourth quarter.

Famed economist, Nouriel Roubini, warned the ECB and the BOE must keep raising interest rates to ward off stagflation, although ECB and French central bank Governor, Francois Villeroy de Galhau, warned, "*The ECB will maintain rates at 4.0% as needed*", before upgrading the French economic outlook, with 2023 growth revised up to 0.9% from June's 0.7%, although the 2024 and 2025 forecasts were trimmed to 0.9% and 1.3%, respectively. ECB colleague, Luis de Guindos, then added, "*The worst of the underlying inflationary pressures have passed and it should moderate*", although Martin Kazaks warned, "*don't bet on a rate cut in H1 2024.*"

NZ services PMIs fell from 48.0 to 47.1 in August. It was the 3rd consecutive drop in activity, and well below the long-term average at 53.5. Ahead of this week's GDP update, the NZIER survey of economists is forecasting growth to fall to 0.4% by March 2024 before recovering to 1.1% in 2025. The inflation outlook has also been revised higher with expectations at 4.3% in 2024 and at 2.4% come 2025.

Is Beijing drawing a hard line on the yuan's slide?

Well, they may be, after the 'authorities' announced, "*the yuan will show 'positive changes' against dollar after bottoming out*" while the PBoC set the USD/CNY fixing at 7.1736 against estimates at 7.2707! And speaking of intervention, Chinese police have detained management from Evergrande's wealth management unit. Evergrande, which you may remember, is one of China's massively indebted property developer firms, with USD340bn of debt and are symbolic of the USD/CNY currency issues as the slide in the yuan against the dollar has increased debt repayments by approximately USD3bn. Evergrande shares slumped 25% overnight.

Morgan Stanley expects a US recession next year, with the economy in a disinflationary spiral as CPI and PPI "*point to a quicker progression in the disinflationary process*" with "*notable*" slower momentum. And the US United Auto Workers strike won't help those projections either, after the 146k members rejected a pay offer of 21%, standing firm with their 40% target.

What are we going to do for fun if we can't spoof? Spoofing, a practice that involves placing large orders with no intention of executing them to move the market, has seen a former JPMorgan gold trader sentenced to serve 6-months in prison for undertaking this practice.



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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	69.80					CAD	0.7977	0.8681
NZD/USD	0.5913	0.0000	0.0000	0.0000	-0.0010	CHF	0.5308	0.5777
NZD/AUD	0.9188	-0.0010	-0.0030	-0.0059	-0.0114	CNY	4.3142	4.6936
NZD/JPY	87.29	-0.43	-1.27	-2.58	-5.04	DKK	4.1251	4.4886
NZD/EUR	0.5534	-0.0007	-0.0022	-0.0048	-0.0099	FJD	1.3216	1.4381
NZD/GBP	0.4775	0.0000	0.0000	-0.0001	-0.0005	HKD	4.6227	5.0300
						KRW	782.69	851.66
AU TWI	60.60					MYR	2.7714	3.0156
AUD/USD	0.6434	0.0007	0.0020	0.0041	0.0064	NOK	6.3960	6.9603
AUD/NZD	1.0879	0.0010	0.0031	0.0067	0.0108	SEK	6.5999	7.1826
AUD/JPY	94.99	-0.36	-1.09	-2.21	-4.38	SGD	0.8063	0.8773
AUD/EUR	0.6021	-0.0001	-0.0005	-0.0013	-0.0034	TWD	18.89	20.55
AUD/GBP	0.5196	0.0005	0.0016	0.0031	0.0058	ZAR	11.24	12.23
USD Index	105.15					EQUITIES		
EUR/USD	1.0682	0.0013	0.0040	0.0089	0.0180		Index	
USD/JPY	147.63	-0.72	-2.14	-4.36	-8.25	NZX50	11,397	
GBP/USD	1.2381	0.0000	-0.0001	0.0001	-0.0015	ASX200	7,230	
EUR/GBP	0.8628	0.0010	0.0033	0.0069	0.0145	Dow Jones	34,625	
						S&P 500	4,453	
INTEREST RATES			New Zealand		Australia	FTSE100	7,653	
			Mid		Mid	DAX 30	15,727	
30 day bank bills			5.64%		4.11%	Nikkei	33,533	
90 day bank bills			5.70%		4.17%	COMMODITIES		
1 year swap			5.78%		4.28%		USD	
2 year swap			5.54%		4.21%	Brent Crude	94.40	
3 year swap			5.27%		4.12%	Gold	1,931.07	
5 year swap			4.97%		4.28%	Silver	23.20	
10 year swap			4.85%		4.51%	Iron Ore	121.29	
3 year Govt bond			5.31%		3.95%	CRB Index	325.63	
5 year Govt bond			5.12%		3.99%		NZD	
10 year Govt bond			5.11%		4.28%	NZ Carbon	68.00	

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