

Market Alert

Thursday 09 November 2023

CURRENCIES	Spot	6mths
NZD/USD	0.5916	0.0002
NZD/AUD	0.9225	-0.0045
NZD/JPY	89.30	-2.58
NZD/EUR	0.5525	-0.0044
NZD/GBP	0.4810	-0.0005
NZD/CNH	4.3100	-0.0573
AUD/USD	0.6408	0.0033
AUD/EUR	0.5983	-0.0020
EUR/USD	1.0707	0.0087
USD/CNH	7.2838	-0.0990
GBP/USD	1.2298	0.0012
EUR/GBP	0.8706	0.0058

INT RATES	NZ	Australia
OCR/Cash	5.50%	4.35%
90 day bills	5.67%	4.46%
2 year swap	5.24%	4.36%
10 year Govt	5.19%	4.69%

A bond market rally is a wonderful thing to behold...

... and last night was no exception with the US 10-year Treasury yield dropping a further 10bps to yield 4.51% but, looking at the situation holistically, perhaps we should be a little circumspect about a swift return to lower rates given much still depends on central banks and inflation playing ball as well!

The last three weeks have seen an impressive 4.50% - 5.00% range on the benchmark US 10-year Treasury, and while these are excessive moves, are we getting to the stage where the bond rally is overdone? Financial markets are convinced the Fed, ECB, BoE, and RBNZ have reached 'peak' rates, but those same central banks are also consistently preaching that rates will remain elevated

for some time! Currently, markets are not listening and are choosing a weaker economic growth narrative. Ultimately, the old adage from John Maynard Keynes comes to mind, that "Markets can stay irrational longer than you can stay solvent," but we should be careful to not get too carried away with optimistic cutting cycles in 2024 and just play the trend!

And with falling interest rates...

... we naturally saw a flood of positive housing headlines. First up was the US headline that the 30-year fixed-rate mortgage declined to its lowest level in 5-weeks, at 7.61%, to record its biggest weekly decline in over a year. This was swiftly followed by news that US mortgage applications rose by 2.5% last week, halting three consecutive weeks of declines.

Overnight, the Bank of Canada minutes had a hawkish bent to them with, "Some members of the governing council feeling it more likely than not that the overnight rate would need to rise further. Other members felt 5% would likely be enough to bring inflation to target. The lack of downward momentum in underlying inflation caused considerable concern, could mean more time needed or that policy not restrictive enough. Persistence in core inflation, elevated expectations, wage growth and atypical corporate pricing behaviour indicate high inflation is becoming entrenched."

Data out of the Eurozone were mixed, with retail sales declining -0.3% in

September (the third consecutive month of decreases) while the 'zones' 12-month inflation expectations increased sharply to 4.0% to reach their highest level since April. 3-year inflation expectations remained unchanged at 2.5%. ECB economist Philip Lane said the central bank should "not take a lot of comfort" from the recent decline in inflation.

And speaking of inflation, the RBNZ's inflation survey showed expectations for inflation in two years' time have dropped to 2.76%, down from 2.83% in the previous quarter.

In Japan, the Reuters Tankan sentiment index for manufacturers rose to +6 in November, from +4 in October, while Moody's has affirmed Japan's A1 rating with a stable outlook.

PBoC Governor Pan Gongsheng, "We will resolutely guard against overshooting risks of yuan exchange rate and resolutely deal with behaviours that disrupt market order. China's economy continues to improve, and the 5% growth target is expected to be successfully achieved."

With bond markets being the primary focus, FX and equity markets were 'treading water' for most of the session. But there was some activity in commodity markets, where oil prices fell a further -2.5% after reports emerged that US stockpiles jumped by 12 million barrels last week. If confirmed, it would be the biggest rise in about 9-months.



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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	70.00					CAD	0.8166	0.8848
NZD/USD	0.5916	0.0000	0.0001	0.0002	-0.0003	CHF	0.5321	0.5766
NZD/AUD	0.9225	-0.0009	-0.0025	-0.0045	-0.0076	CNY	4.3044	4.6656
NZD/JPY	89.30	-0.43	-1.35	-2.58	-4.98	DKK	4.1193	4.4618
NZD/EUR	0.5525	-0.0007	-0.0022	-0.0044	-0.0095	FJD	1.3244	1.4345
NZD/GBP	0.4810	-0.0001	-0.0002	-0.0005	-0.0014	HKD	4.6238	5.0084
						KRW	775.37	839.85
AU TWI	60.60					MYR	2.7687	2.9989
AUD/USD	0.6408	0.0006	0.0018	0.0033	0.0047	NOK	6.6182	7.1686
AUD/NZD	1.0830	0.0009	0.0027	0.0049	0.0081	SEK	6.4460	6.9820
AUD/JPY	96.72	-0.38	-1.21	-2.35	-4.67	SGD	0.8021	0.8688
AUD/EUR	0.5983	-0.0002	-0.0008	-0.0020	-0.0058	TWD	19.05	20.63
AUD/GBP	0.5210	0.0004	0.0011	0.0019	0.0027	ZAR	10.92	11.83
USD Index	105.54					EQUITIES		
EUR/USD	1.0707	0.0013	0.0045	0.0087	0.0181		Index	
USD/JPY	150.92	-0.73	-2.32	-4.37	-8.35	NZX50	11,151	
GBP/USD	1.2298	0.0002	0.0008	0.0012	0.0021	ASX200	6,995	
EUR/GBP	0.8706	0.0009	0.0031	0.0058	0.0126	Dow Jones	34,084	
						S&P 500	4,372	
INTEREST RATES			New Zealand		Australia	FTSE100	7,402	
			Mid		Mid	DAX 30	15,230	
30 day bank bills			5.63%		4.32%	Nikkei	32,166	
90 day bank bills			5.67%		4.46%	COMMODITIES		
1 year swap			5.61%		4.50%		USD	
2 year swap			5.24%		4.38%	Brent Crude	79.34	
3 year swap			5.01%		4.33%	Gold	1,950.89	
5 year swap			4.84%		4.55%	Silver	22.63	
10 year swap			4.95%		4.80%	Iron Ore	125.95	
3 year Govt bond			5.08%		4.23%	CRB Index	312.59	
5 year Govt bond			5.03%		4.32%		NZD	
10 year Govt bond			5.19%		4.69%	NZ Carbon	71.25	

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