

Market Alert

Monday 26 February 2024

CURRENCIES	Spot	6mths
NZD/USD	0.6201	-0.0006
NZD/AUD	0.9439	-0.0058
NZD/JPY	93.28	-2.64
NZD/EUR	0.5725	-0.0051
NZD/GBP	0.4893	-0.0010
NZD/CNH	4.4604	-0.0615
AUD/USD	0.6561	0.0033
AUD/EUR	0.6063	-0.0017
EUR/USD	1.0818	0.0085
USD/CNH	7.2037	-0.0923
GBP/USD	1.2668	0.0012
EUR/GBP	0.8537	0.0057

INT RATES	NZ	Australia
OCR/Cash	5.50%	4.35%
90 day bills	5.77%	4.39%
2 year swap	5.26%	4.02%
10 year Govt	4.91%	4.28%

Catch 22 for the RBNZ this week

Friday's dismal retail sales data showed just how stretched NZ households are, with retail sales volumes contracting a huge 1.9% in the December quarter. This was no one-off anomaly however, just the latest in a weakening trend which has been in place since late 2021 and comes despite record population growth. While nominal retail spend has continued to rise, this is being driven by rising prices, leaving consumers getting less 'bang-for-buck' and clearly focusing on the essentials.

This lies at the heart of the RBNZ dilemma: higher interest rates have seen households tighten the purse strings where they can, but those inescapable essentials just keep on climbing, impervious to the RBNZ actions. While

market pricing reflects a small chance of another OCR hike, a Reuters survey showed 27 out of 28 economists forecast rates to maintain at the current level and just one called for a 25bps hike. A hike would be a surprise but cannot be ruled out, with the meeting seen as potentially 'live' after the central bank's hawkish signal at the last meeting and ANZ Bank also recently forecasted the RBNZ to deliver back-to-back hikes in February and April to lift the OCR to 6.00%.

Let's hope the RBNZ sees things differently. While inflation remains above the RBNZ's 1-3% medium term target, GDP showed a surprise contraction, while CPI is continuing to slow - from 5.6% to 4.7% in December. Inflation expectations are also normalising, an important consideration given much of the RBNZ's success comes down to winning the psychological battle.

Real estate woes

There is a growing focus on US real estate and the exposures on bank balance sheets, with more than USD900m of US commercial real estate requiring refinancing this year as building values fall and credit costs remain high. Smaller US banks are particularly vulnerable after many of them increased their property lending during the pandemic, before interest rates started to soar.

No such problems for Warren Buffett's Berkshire Hathaway, with a record cash pile of USD167 billion and a lack of meaningful deals.

Currency markets had a relatively quiet end to the week, the NZD/USD briefly lifting above the 0.6200 level. The benchmark US 10-year Treasury yield dropped almost 10bps to 4.25%, and the 2-year eased 5bps as market views as to the possible timing of interest rate cuts continues to ebb and flow. Markets this week will be looking at the US PCE inflation data for further clues - although we are unlikely to see big reactions unless the data surprises on either side. Closer to home, Wednesday's Australian monthly CPI data will provide a timely update but is unlikely to provide a clear path for the central bank. Annual Eurozone CPI is expected to be 2.5%, with the 3 & 6-month annualised rate already below the ECB's 2.00% target. The market is fully pricing a 25bp cut in June, and may start to price back in an April cut if the inflation data is softer than expectations.



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Daily Rates

Monday 26 February 2024

FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	72.50					CAD	0.8373	0.8864
NZD/USD	0.6204	0.0000	-0.0001	-0.0006	-0.0025	CHF	0.5462	0.5759
NZD/AUD	0.9442	-0.0009	-0.0028	-0.0058	-0.0113	CNY	4.4574	4.7215
NZD/JPY	93.30	-0.42	-1.33	-2.64	-5.15	DKK	4.2699	4.5178
NZD/EUR	0.5728	-0.0007	-0.0023	-0.0051	-0.0118	FJD	1.3653	1.4445
NZD/GBP	0.4896	-0.0001	-0.0004	-0.0010	-0.0028	HKD	4.8517	5.1334
						KRW	824.70	872.58
AU TWI	61.50					MYR	2.9610	3.1329
AUD/USD	0.6561	0.0006	0.0018	0.0033	0.0053	NOK	6.5234	6.9021
AUD/NZD	1.0591	0.0008	0.0030	0.0062	0.0120	SEK	6.4028	6.7745
AUD/JPY	98.80	-0.37	-1.12	-2.22	-4.36	SGD	0.8328	0.8811
AUD/EUR	0.6063	-0.0002	-0.0007	-0.0017	-0.0054	TWD	19.57	20.70
AUD/GBP	0.5177	0.0003	0.0011	0.0020	0.0030	ZAR	11.97	12.67
USD Index	103.96					EQUITIES		
EUR/USD	1.0818	0.0013	0.0041	0.0085	0.0183		Index	
USD/JPY	150.56	-0.67	-2.11	-4.11	-7.80	NZX50	11,720	
GBP/USD	1.2668	0.0002	0.0006	0.0012	0.0024	ASX200	7,644	
EUR/GBP	0.8537	0.0008	0.0027	0.0057	0.0125	Dow Jones	39,132	
						S&P 500	5,089	
INTEREST RATES			New Zealand		Australia	FTSE100	7,706	
			Mid		Mid	DAX 30	17,419	
30 day bank bills			5.66%		4.35%	Nikkei	39,099	
90 day bank bills			5.73%		4.39%	COMMODITIES		
1 year swap			5.73%		4.23%		USD	
2 year swap			5.28%		4.04%	Brent Crude	81.62	
3 year swap			4.97%		3.96%	Gold	2,035.72	
5 year swap			4.72%		4.16%	Silver	22.94	
10 year swap			4.73%		4.41%	Iron Ore	126.85	
3 year Govt bond			4.93%		3.81%	CRB Index	311.94	
5 year Govt bond			4.78%		3.89%		NZD	
10 year Govt bond			4.91%		4.27%	NZ Carbon	67.50	

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