

Market Alert

Thursday 15 August 2024

CURRENCIES	Spot	6mths
NZD/USD	0.5997	0.0000
NZD/AUD	0.9091	-0.0029
NZD/JPY	88.395	-2.25
NZD/EUR	0.5446	-0.0044
NZD/GBP	0.4675	-0.0003
NZD/CNH	4.2855	-0.0674
AUD/USD	0.6595	0.0019
AUD/EUR	0.5988	-0.0032
EUR/USD	1.1012	0.0090
USD/CNH	7.1456	-0.1123
GBP/USD	1.2824	0.0007
EUR/GBP	0.8583	0.0065

INT RATES	NZ	Australia
OCR/Cash	5.25%	4.35%
90 day bills	5.26%	4.41%
2 year swap	3.85%	3.65%
10 year Govt	4.24%	4.02%

Always expect the unexpected!

And that's what you have to do with a certain Mr. Orr in charge!

Unexpectedly, or expectedly, depending on who you listen to, the RBNZ yesterday cut the OCR by 25bps to 5.25% as the central bank was, "Confident inflation (will be) back in its target band," adding that, "We can commence re-normalising rates," but perhaps what was more telling was the huge shift in the central bank's forecasts, with its projections now implying cuts at the next three meetings, and then every second meeting thereafter. Apart from a major financial markets event, such as the GFC or Covid, I suspect this could be the central banks largest ever pivot, with the RBNZ lowering its OCR track by up

to -130bps and accelerated the timing of cuts by 12-months! There was also a huge shift in the GDP projections, with growth lowered by -0.6% in Q2 and -0.5% in Q3, which would place the country in its third recession since 2022!

To this point, there was a fair bit of criticism levelled at the Governor during the press conference, which was to some extent justified given that in the May MPS the RBNZ floated the idea of a rate hike and wasn't projecting a rate cut until Q3 25, yet it cut the cash rate at the very next MPS meeting. But while the initial inquisition was batted away with a simple, "let's move on," persistent questioning initially saw Mr. Orr emphatically state the RBNZ wasn't "bluffing" with its hawkish rhetoric in May, that the changes weren't a "huge change," and that the answer was in, "the first two paragraphs of the document" before adding, "People please understand the conditionality of economic forecasts – you need to get that across to your listeners!" Ultimately, the Governor eventually conceded that economic output had declined much more rapidly than expected, but still -130bps worth?

US CPI

US CPI printed at 0.2% for July and 2.9% on the year, while core CPI came in at 0.2% and 3.2%, respectively. This was largely in line with market expectations and will help support confidence for a

September rate cut by the Fed. In the UK, CPI printed at -0.2% for July, and 2.2% on the year, while core CPI printed at 0.1% and 3.3% respectively. Swap rates eased in anticipation of further interest rate cuts from the Bank of England.

Eurozone GDP was up 0.3% for the June quarter, and up 0.6% on the year, while the industrial production numbers weren't so pretty, surprising to the downside to be down -0.1% for the month of June, and down -3.9% for the June year.

In terms of the market reaction to the RBNZ rate cut, the NZD was hit immediately, selling off -1.0%, although the rates reaction was initially subdued, with the move being exaggerated on the European open. Interestingly, the NZ interest rate curve is now positive, with the 2-yr versus 10-yr swap spread up 2.5bps. In reaction to the US CPI print, the US 10-year Treasury yield was also lower, falling -1bps overnight to 3.83%. Commodities came under further selling pressure, with gold down 0.8% overnight, while iron ore slid further south to \$95.50/MT, down -20.5% from its May 2024 peak. This downward trend may see the AUD struggle.



BANCORP

BANCORP TREASURY SERVICES LIMITED

Barrington
TREASURY SERVICES

Barrington
ASSET CONSULTING



BANCORP

BANCORP CORPORATE FINANCE LIMITED

Daily Rates

Thursday 15 August 2024

FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	70.10					CAD	0.8225	0.9049
NZD/USD	0.5997	0.0001	0.0001	0.0000	-0.0001	CHF	0.5186	0.5708
NZD/AUD	0.9091	-0.0007	-0.0017	-0.0029	-0.0026	CNY	4.2953	4.7195
NZD/JPY	88.395	-0.41	-1.18	-2.25	-3.83	DKK	4.0616	4.4681
NZD/EUR	0.5446	-0.0007	-0.0022	-0.0044	-0.0082	FJD	1.3240	1.4565
NZD/GBP	0.4675	-0.0001	-0.0002	-0.0003	0.0003	HKD	4.6720	5.1395
						KRW	814.23	895.72
AU TWI	61.70					MYR	2.6468	2.9117
AUD/USD	0.6595	0.0006	0.0014	0.0019	0.0017	NOK	6.4256	7.0687
AUD/NZD	1.1000	0.0008	0.0020	0.0025	0.0023	SEK	6.2734	6.9013
AUD/JPY	97.23	-0.38	-1.12	-2.18	-3.96	SGD	0.7894	0.8684
AUD/EUR	0.5988	-0.0003	-0.0013	-0.0032	-0.0076	TWD	19.32	21.26
AUD/GBP	0.5140	0.0003	0.0007	0.0011	0.0016	ZAR	10.84	11.92
USD Index	102.60					EQUITIES		
EUR/USD	1.1012	0.0016	0.0047	0.0090	0.0160		Index	
USD/JPY	147.39	-0.72	-1.99	-3.75	-6.37	NZX50	12,573	
GBP/USD	1.2824	0.0005	0.0009	0.0007	-0.0013	ASX200	7,851	
EUR/GBP	0.8583	0.0009	0.0031	0.0065	0.0134	Dow Jones	40,008	
						S&P 500	5,451	
INTEREST RATES			New Zealand		Australia	FTSE100	8,281	
			Mid		Mid	DAX 30	17,886	
30 day bank bills			5.38%		4.35%	Nikkei	36,442	
90 day bank bills			5.26%		4.41%	COMMODITIES		
1 year swap			4.49%		3.99%		USD	
2 year swap			3.89%		3.67%	Brent Crude	79.92	
3 year swap			3.70%		3.55%	Gold	2,447.39	
5 year swap			3.68%		3.75%	Silver	27.53	
10 year swap			3.92%		4.03%	Iron Ore	100.44	
3 year Govt bond			3.85%		3.59%	CRB Index	325.43	
5 year Govt bond			3.88%		3.67%		NZD	
10 year Govt bond			4.24%		4.04%	NZ Carbon	53.50	

This document has been prepared by Bancorp Treasury Services Limited ("BTSL"). Whilst all reasonable care has been taken to ensure the facts stated are accurate and the opinions given are fair and reasonable, neither BTSL nor any of its directors, officers or employees shall in any way be responsible for the contents. No liability is assumed by BTSL, its directors, officers or employees for action taken or not taken on the basis of this document.



BANCORP
BANCORP TREASURY SERVICES LIMITED

Barrington
TREASURY SERVICES

Barrington
ASSET CONSULTING



BANCORP
BANCORP CORPORATE FINANCE LIMITED