

# Market Alert

Thursday 13 May 2021

CURRENCIES	Spot	6mths
NZD/USD	0.7156	-0.0006
NZD/AUD	0.9263	-0.0013
NZD/JPY	78.43	-0.19
NZD/EUR	0.5925	-0.0026
NZD/GBP	0.5091	-0.0006
NZD/CNH	4.6219	0.0534
AUD/USD	0.7725	0.0005
AUD/EUR	0.6397	-0.0019
EUR/USD	1.2077	0.0044
USD/CNH	6.4592	0.0797
GBP/USD	1.4056	0.0005
EUR/GBP	0.8592	0.0029

  

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.10%
90 day bills	0.37%	0.04%
2 year swap	0.54%	0.15%
10 year Govt	1.84%	1.77%

## And they're up and racing, this time!

After spending the majority of the week waiting for US CPI, the headline numbers didn't disappoint! Month on month, the headline number printed at +0.8%, way above the forecast +0.2%, following on from March's +0.6% print. And the core was even higher, printing at +0.9%. On an annual basis, the +4.2% headline was the largest 12 month increase since the +4.9% increase in September 2008, and exceeded the +3.6% forecast, while the core was at +3.0%.

So, the real question is, were the increases transitory or not? The report showed sharp increases in transitory prices for such items as second hand motor vehicles, but there was also a residual firmness in core inflation from the likes of rents and hotels, that is hard to ignore. As the Fed's Bostic said *"US is in a 'turbulent time' and volatility in inflation is (to be) expected."*

As a result of this, rates traders boosted bets that the Fed may be forced to hike interest rates as early as next year, much earlier than policy makers have indicated, which saw the 10-year US yield move higher to 1.68% while the bund firmed to -0.12%, begging the question; could the bund actually generate a positive yield?

In other data releases, US hourly and weekly earnings fell -3.7% and -1.4% on the year, the US posted a budget deficit of USD226 billion in April to hit a new record of USD1.932 trillion for the first 7 months of fiscal year 2021, a 30% increase from the same period in 2020, while the EU upgraded its GDP forecasts to 4.3% in 2021 and 4.4% in 2022. Q1 UK GDP contracted -1.5%, slightly better than the -1.6% forecast.

Mizuho probably summed it up best when they said *"While such inflation concerns are materialising in higher yields or rates, the repricing of global assets will leave the tech sector vulnerable,"* which is exactly what happened. With the threat of earlier than anticipated rate hikes, indices across

Europe and the US all traded in the red, especially tech stocks.

This also saw some profit taking on those commodities that have rallied the strongest, although oil and gas continue to be bid due to the disruptions caused by the recent cyberattack. In FX-land, the risk-off environment saw the NZD, AUD and EUR fall 1.75%, 1.50% and 0.65% respectively.

## In other news

With the Australian budget forecasting an AUD161 billion deficit in FY 2021/22 before falling to AUD57 billion in 2024/25, and with net debt to peak at 40% of GDP, one of the local banks has suggested Australia will most likely lose its AAA rating. This is because the government has essentially made a clear decision to choose short-term stimulus over medium-term fiscal repair. In saying this, the bank suggests that the loss of its triple A status would have little impact on the local government bond market.

Bridgewater founder, Ray Dalio, stated that US government spending raises the risk of inflation and USD devaluation.

The SEC announced Bitcoin is a highly speculative investment and urges caution. I guess that's why they get paid the big bucks!



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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	74.73					CAD	0.8678	0.9369
NZD/USD	0.7156	-0.0001	-0.0002	-0.0006	-0.0014	CHF	0.6501	0.7019
NZD/AUD	0.9263	-0.0002	-0.0007	-0.0013	-0.0028	CNY	4.6303	4.9989
NZD/JPY	78.43	-0.02	-0.09	-0.19	-0.49	DKK	4.4058	4.7565
NZD/EUR	0.5925	-0.0004	-0.0013	-0.0026	-0.0058	FJD	1.4462	1.5614
NZD/GBP	0.5248	-0.0001	-0.0003	-0.0006	-0.0014	HKD	5.5566	5.9990
						KRW	809.92	874.41
AU TWI	64.40					MYR	2.9827	3.2202
AUD/USD	0.7725	0.0001	0.0003	0.0005	0.0008	NOK	5.9719	6.4473
AUD/NZD	1.0796	0.0002	0.0008	0.0015	0.0033	SEK	6.0308	6.5110
AUD/JPY	84.68	-0.01	-0.03	-0.08	-0.27	SGD	0.9542	1.0301
AUD/EUR	0.6397	-0.0003	-0.0009	-0.0019	-0.0043	TWD	20.01	21.60
AUD/GBP	0.5496	0.0000	0.0001	0.0002	0.0001	ZAR	10.1039	10.9084
USD Index	90.76							
EUR/USD	1.2077	0.0007	0.0022	0.0044	0.0095	<b>EQUITIES</b>		
USD/JPY	109.62	-0.02	-0.08	-0.18	-0.46			<b>Index</b>
GBP/USD	1.4056	0.0001	0.0003	0.0005	0.0011	NZX50		12,564
EUR/GBP	0.8592	0.0005	0.0014	0.0029	0.0061	ASX200		7,045
						Dow Jones		33,588
<b>INTEREST RATES</b>						S&P 500		4,063
		<b>New Zealand</b>		<b>Australia</b>		FTSE100		7,005
		<b>Borrow</b>	<b>Invest</b>	<b>Borrow</b>	<b>Invest</b>	DAX 30		15,150
30 day bank bills		0.30%	0.26%	0.02%	0.02%	Nikkei		28,148
90 day bank bills		0.39%	0.35%	0.06%	0.02%	<b>COMMODITIES</b>		
FRA 90d in 3mths		0.38%	0.35%	0.07%	0.04%			<b>USD</b>
FRA 180d in 6mths		0.45%	0.42%	0.13%	0.12%	Dubai Light		66.65
1 year swap		0.40%	0.38%	0.07%	0.06%	Brent Crude		69.04
2 year swap		0.56%	0.53%	0.16%	0.15%	Gold		1,819.73
3 year swap		0.77%	0.74%	0.33%	0.31%	Silver		27.02
5 year swap		1.23%	1.19%	0.83%	0.76%	CRB Index		221.00
10 year swap		1.99%	1.96%	1.80%	1.79%			
10 year Govt bond			1.82%		1.77%			

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