

Market Alert

Monday 12 July 2021

CURRENCIES	Spot	6mths
NZD/USD	0.6996	-0.0007
NZD/AUD	0.9351	-0.0017
NZD/JPY	77.07	-0.24
NZD/EUR	0.5891	-0.0030
NZD/GBP	0.5035	-0.0008
NZD/CNH	4.5347	0.0556
AUD/USD	0.7482	0.0006
AUD/EUR	0.6300	-0.0020
EUR/USD	1.1876	0.0049
USD/CNH	6.4827	0.0857
GBP/USD	1.3894	0.0009
EUR/GBP	0.8548	0.0030

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.10%
90 day bills	0.34%	0.03%
2 year swap	0.86%	0.24%
10 year Govt	1.66%	1.36%

US dollar story

The US dollar was the story of the week last week and closed softer after a volatile few days that saw the USD hit a three month high on the back of growth, inflation and Fed tightening expectations, however, all of the gains were given up leading into the end of the week. The surprising dip in US Treasury yields, to 1.25%, spectacularly reversed to 1.36%, leading to USD selling. US stocks liked the weaker dollar, with all three major

US stock indexes climbing to yet another record close. The NZD and the AUD both bounced off recent lows (YTD low in the AUD's case) against the USD to close the week at 0.6999 and 0.7492 respectively.

The key data piece out of the North American session was the Canadian jobs report, which beat expectations and put the onus back on the Bank of Canada ("BoC") to tighten monetary policy after the unemployment rate dropped from 8.2% to 7.8%. Canada added 230,700 jobs in June, against 195,000 expected, reversing two months of losses.

The BoC is buying CAD3 billion in government bonds per week at the moment but with Fridays strong jobs report, a survey of 21 economists unanimously agreed the BoC is likely to cut further when it meets on Wednesday. The market is still not predicting a rate hike until the end of 2022, but, as we saw last week with RBNZ rate hike expectations, a string of positive economic releases and the market can get carried away.

The Fed released its *Monetary Policy Report* just before everyone packed up for the week, and it contains a few interesting tidbits on inflation. The Fed believes that "more lasting but likely still temporary upward pressure on inflation has

come from prices for goods experiencing supply chain bottlenecks."

The Fed added "measures of longer-term inflation expectations have risen since the end of last year, largely reversing the downward drift in those measures in recent years, and are in a range that is broadly consistent with the FOMC's longer-run inflation objective." If the Fed still plans to run inflation hot, then it will surely not feel the pressure to raise rates to constrain inflation that is in line with long run objectives. Particularly as "the labour force participation rate (LFPR) has improved very little since early in the recovery and remains well below pre-pandemic levels."

Other news

The ECB has set its inflation target at 2.0% after a strategic review.

The G20 has warned that virus variants threaten the global recovery.

The PBOC has cut banks Reserve Ratio Requirements by 0.50% in the first cut since April 2020 as officials try to bolster economic growth.

South Korean officials have called an emergency meeting as new cases hit a record 1,378 with restrictions in Seoul to begin today.



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Daily Rates

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FX	Spot Mid	FECs (mid)				Spot Mid	
		1mth	3mths	6mths	12mths	NZD/...	AUD/...
NZ TWI	73.97					CAD	0.8718
NZD/USD	0.6996	0.0000	-0.0002	-0.0007	-0.0026	CHF	0.6402
NZD/AUD	0.9351	-0.0002	-0.0007	-0.0017	-0.0044	CNY	4.5259
NZD/JPY	77.07	-0.03	-0.09	-0.24	-0.61	DKK	4.3847
NZD/EUR	0.5891	-0.0004	-0.0013	-0.0030	-0.0068	FJD	1.4552
NZD/GBP	0.5035	-0.0001	-0.0003	-0.0008	-0.0022	HKD	5.4379
						KRW	803.74
AU TWI	62.20					MYR	2.9127
AUD/USD	0.7482	0.0001	0.0003	0.0006	0.0007	NOK	6.0725
AUD/NZD	1.0694	0.0002	0.0008	0.0019	0.0050	SEK	6.0004
AUD/JPY	82.42	-0.01	-0.04	-0.11	-0.27	SGD	0.9453
AUD/EUR	0.6300	-0.0003	-0.0009	-0.0020	-0.0044	TWD	19.50
AUD/GBP	0.5385	0.0000	0.0001	0.0001	0.0002	ZAR	9.9613
							10.6526
USD Index	92.13						
EUR/USD	1.1876	0.0007	0.0022	0.0049	0.0094		
USD/JPY	110.17	-0.03	-0.09	-0.24	-0.46		
GBP/USD	1.3894	0.0001	0.0003	0.0009	0.0008		
EUR/GBP	0.8548	0.0005	0.0014	0.0030	0.0063		
INTEREST RATES		New Zealand		Australia		EQUITIES	
		Borrow	Invest	Borrow	Invest		Index
30 day bank bills		0.29%	0.25%	0.02%	0.02%	NZX50	12,690
90 day bank bills		0.36%	0.32%	0.05%	0.01%	ASX200	7,273
FRA 90d in 3mths		0.48%	0.45%	0.06%	0.03%	Dow Jones	34,870
FRA 180d in 6mths		0.75%	0.72%	0.13%	0.11%	S&P 500	4,370
1 year swap		0.59%	0.57%	0.08%	0.06%	FTSE100	7,122
2 year swap		0.87%	0.85%	0.25%	0.23%	DAX 30	15,688
3 year swap		1.07%	1.05%	0.44%	0.43%	Nikkei	27,940
5 year swap		1.35%	1.33%	0.85%	0.75%		
10 year swap		1.77%	1.75%	1.47%	1.46%	COMMODITIES	
							USD
						Dubai Light	73.51
						Brent Crude	75.55
						Gold	1,807.92
						Silver	26.08

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