

Market Alert

Tuesday 13 July 2021

CURRENCIES	Spot	6mths
NZD/USD	0.6983	-0.0007
NZD/AUD	0.9335	-0.0017
NZD/JPY	77.05	-0.24
NZD/EUR	0.5889	-0.0029
NZD/GBP	0.5031	-0.0008
NZD/CNH	4.5223	0.0541
AUD/USD	0.7481	0.0007
AUD/EUR	0.6308	-0.0020
EUR/USD	1.1859	0.0049
USD/CNH	6.4762	0.0837
GBP/USD	1.3882	0.0009
EUR/GBP	0.8543	0.0029

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.10%
90 day bills	0.32%	0.03%
2 year swap	0.84%	0.22%
10 year Govt	1.65%	1.32%

Remember the good old days?

Christine Lagarde announced the ECB will change its guidance at its 22 June meeting to reflect its new strategy allowing it to tolerate inflation higher than its 2% goal as she said *"given the persistence that we need to demonstrate to deliver on our commitment, forward guidance will certainly be revisited."* She then added this was not the right time to talk about dialling back stimulus. Although, the ECB's QE programme, which is worth up to EUR1.85 trillion, could *"transition into a new format."*

And right on cue, Germany's wholesale price index rose 1.5% in June against the 1.7% forecast, while, in the UK, Deloitte's announced capex and employment are to surge the most in 7 years.

Following on from Friday's surprise RRR cut, the China Securities Journal highlighted the government could increase policy support for the local economy given H2 2021 economic growth is expected to be weaker than H1 2021. Ultimately, the date to watch in the calendar is 20 July when the PBoC is next due to announce their 1-year and 5-year loan prime rates.

With the 4 major NZ banks calling for an RBNZ rate hike in November, and with one even hinting at August, it is refreshing to see the 'green bank' announce that November is too early for local hikes.

Don't get too carried away with all of this talk about rate hikes as APRA, the Australian Prudential Regulation Authority, wants all banks to be prepared for the possibility of zero or negative interest rates by 30 April 2022. Ahh, the good old days, when all we ever spoke about was negative rates! While the RBA have repeatedly said a negative cash rate is highly unlikely, APRA wants banks to be prepared as *"it is possible that other interest rates determined in the financial markets could fall to zero or below zero at any time."*

In the US, the median year-ahead inflation expectations in the US increased to 4.8% in June, a new record high, and the eighth straight month of increases.

Meanwhile, expectations for inflation over the next 3-years remained at its second-highest level ever, unchanged at 3.6%. We also had New York Fed President, John Williams, give his 2 pennies on the MBS vs Treasuries tapering debate stating *"Both of them affect interest rates. Therefore, both of them affect the cost of housing."*

Overnight, equity markets firmed ahead of the US reporting season, while the Euro and European bond yields fell ahead of the ECB's 'soon to be released' policy guidance. The 10-year treasury is at 1.37%, the bund yield is at -0.29%, while the NZD and AUD are slightly lower.

The bond yo-yo

When long-term interest rates were surging earlier this year, Federal Reserve officials cheerfully interpreted the move as a vote of confidence in the US economic outlook. By the same logic, this month's plunge in bond yields suggests investors may be having second thoughts. Ultimately, bond investors are abandoning thoughts of a post-pandemic paradigm shift towards faster growth, and downplaying fears of runaway inflation – at least for now.



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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	73.88					CAD	0.8698
NZD/USD	0.6983	0.0000	-0.0002	-0.0007	-0.0025	CHF	0.6391
NZD/AUD	0.9335	-0.0002	-0.0007	-0.0017	-0.0043	CNY	4.5212
NZD/JPY	77.05	-0.02	-0.09	-0.24	-0.60	DKK	4.3795
NZD/EUR	0.5889	-0.0004	-0.0013	-0.0029	-0.0067	FJD	1.4442
NZD/GBP	0.5031	-0.0001	-0.0003	-0.0008	-0.0021	HKD	5.4234
						KRW	801.06
AU TWI	62.50					MYR	2.9228
AUD/USD	0.7481	0.0001	0.0003	0.0007	0.0008	NOK	6.0729
AUD/NZD	1.0712	0.0002	0.0008	0.0020	0.0050	SEK	5.9970
AUD/JPY	82.54	-0.01	-0.03	-0.10	-0.26	SGD	0.9440
AUD/EUR	0.6308	-0.0003	-0.0009	-0.0020	-0.0043	TWD	19.53
AUD/GBP	0.5389	0.0000	0.0001	0.0001	0.0002	ZAR	10.0658
							10.7828
USD Index	92.24						
EUR/USD	1.1859	0.0008	0.0022	0.0049	0.0094	EQUITIES	
USD/JPY	110.34	-0.03	-0.09	-0.24	-0.46		Index
GBP/USD	1.3882	0.0001	0.0003	0.0009	0.0009	NZX50	12,763
EUR/GBP	0.8543	0.0005	0.0014	0.0029	0.0062	ASX200	7,333
						Dow Jones	34,992
						S&P 500	4,384
						FTSE100	7,125
						DAX 30	15,791
						Nikkei	28,569
						COMMODITIES	
							USD
						Dubai Light	73.40
						Brent Crude	75.25
						Gold	1,805.97
						Silver	26.22
						CRB Index	226.06

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