

Market Alert

Thursday 19 August 2021

CURRENCIES	Spot	6mths
NZD/USD	0.6885	-0.0011
NZD/AUD	0.9510	-0.0025
NZD/JPY	75.58	-0.28
NZD/EUR	0.5878	-0.0033
NZD/GBP	0.5005	-0.0011
NZD/CNH	4.4641	0.0572
AUD/USD	0.7240	0.0007
AUD/EUR	0.6181	-0.0019
EUR/USD	1.1713	0.0048
USD/CNH	6.4837	0.0936
GBP/USD	1.3757	0.0007
EUR/GBP	0.8514	0.0030

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.10%
90 day bills	0.45%	0.02%
2 year swap	1.24%	0.21%
10 year Govt	1.78%	1.14%

That's an impressive document.

I must say, Mr. Orr seems to be very impressed with the RBNZ's new Monetary Policy statement, like a father with a new-born son, and he has gone to great pains to "encourage people to take the time to read the document." To be fair, it is a very good document and, as a bonus, if house prices actually fall next year, he will be able to say that he told us it was coming!

Even in the interviews this morning, the Governor has been very clear and explicit that the economy is in a very strong position and that raising rates is both a good thing and required. I suspect that

a full 50 point hike would have been on the cards if we hadn't had the recent COVID-10 Delta variant outbreak.

But what did the international markets make of it? As we know, the NZD and interest rates bounced strongly once we saw the strength of the Governor's convictions, but this wasn't followed through overnight after the release of the Fed's July monetary policy meeting minutes revealed that while officials expressed a range of views on the appropriate pace of tapering, most noted it would be appropriate to start reducing the pace of asset purchases before the end of the year.

These thoughts were also confirmed after Minneapolis Fed President Robert Kashkari announced the "end of this year, or early next year, are reasonable timelines for tapering, (although my) best guess is that the Fed is still a few years away from raising interest rates. Timing of taper will depend on progress in the labour market. Taper is a question of when, not if." St. Louis Fed President James Bullard was even more bullish stating, "The US has had an 'inflationary shock' that is large and which the Fed needs to take into account when calibrating policy in 2022. Tapering (should be) completed by Q1 2022 to open options for interest rate increases if needed."

The tapering implication saw a note of caution dominate trading activity as equities hit their intra-day lows while commodities also came under selling pressure. Conversely, bond markets

were more sanguine to the news with the 10-year treasury yielding 1.28% while the bund remains at -0.48%. The US-dollar was mixed on the day although the NZD and AUD remained under pressure due to the commodity weakness, while NZ swap rates are above their pre-RBNZ levels, but below their pre-lockdown levels.

In actual data releases

NZ Q2 PPI output rose +2.6% against the +1.2% forecast. It was well above Q1's +1.2% and the highest print since 2008. The Australia Q2 wage price index gained +0.4% against the +0.6% expected, UK inflation eased to 2.0% in July from June's near three-year high of 2.5%, while Canadian inflation hit a 10-year high at 3.7% in July.

What, the Taliban has financial problems? Apparently they do after the NY Fed allegedly confiscated USD1.3 billion of Afghanistan gold while the IMF has yet to decide whether to allocate USD460 million of Covid-relief funding.

Stay safe, keep on smiling, and hey, let's be careful out there!



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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	73.57					CAD	0.8709
NZD/USD	0.6885	0.0000	-0.0003	-0.0011	-0.0044	CHF	0.6309
NZD/AUD	0.9510	-0.0002	-0.0008	-0.0025	-0.0074	CNY	4.4648
NZD/JPY	75.58	-0.02	-0.09	-0.28	-0.79	DKK	4.3711
NZD/EUR	0.5878	-0.0004	-0.0013	-0.0033	-0.0083	FJD	1.4484
NZD/GBP	0.5005	-0.0001	-0.0003	-0.0011	-0.0032	HKD	5.3614
						KRW	804.43
AU TWI	60.90					MYR	2.9291
AUD/USD	0.7240	0.0001	0.0003	0.0007	0.0010	NOK	6.1228
AUD/NZD	1.0516	0.0002	0.0009	0.0027	0.0082	SEK	6.0082
AUD/JPY	79.48	-0.01	-0.02	-0.09	-0.22	SGD	0.9366
AUD/EUR	0.6181	-0.0003	-0.0008	-0.0019	-0.0040	TWD	19.19
AUD/GBP	0.5262	0.0000	0.0002	0.0003	0.0007	ZAR	10.3057
							10.8372
USD Index	93.16						
EUR/USD	1.1713	0.0007	0.0022	0.0048	0.0093		
USD/JPY	109.79	-0.03	-0.08	-0.23	-0.45		
GBP/USD	1.3757	0.0001	0.0003	0.0007	0.0000		
EUR/GBP	0.8514	0.0004	0.0014	0.0030	0.0068		
INTEREST RATES		New Zealand		Australia		EQUITIES	
		Borrow	Invest	Borrow	Invest		Index
30 day bank bills		0.31%	0.27%	-0.01%	0.02%	NZX50	12,719
90 day bank bills		0.47%	0.43%	0.04%	-0.01%	ASX200	7,502
FRA 90d in 3mths		0.76%	0.73%	0.04%	0.01%	Dow Jones	34,961
FRA 180d in 6mths		1.21%	1.21%	0.09%	0.08%	S&P 500	4,412
1 year swap		0.91%	0.89%	0.05%	0.04%	FTSE100	7,169
2 year swap		1.25%	1.23%	0.22%	0.20%	DAX 30	15,966
3 year swap		1.41%	1.39%	0.40%	0.38%	Nikkei	27,586
5 year swap		1.63%	1.61%	0.74%	0.65%		
10 year swap		1.95%	1.93%	1.28%	1.26%		
10 year Govt bond			1.76%		1.14%		
						COMMODITIES	
							USD
						Dubai Light	68.65
						Brent Crude	67.72
						Gold	1,786.77
						Silver	23.48
						CRB Index	226.26

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