

Market Alert

Tuesday 25 January 2022

CURRENCIES	Spot	6mths
NZD/USD	0.6686	-0.0028
NZD/AUD	0.9381	-0.0048
NZD/JPY	76.03	-0.54
NZD/EUR	0.5899	-0.0054
NZD/GBP	0.4962	-0.0016
NZD/CNH	4.2363	0.0221
AUD/USD	0.7127	0.0007
AUD/EUR	0.6287	-0.0026
EUR/USD	1.1335	0.0058
USD/CNH	6.3358	0.0598
GBP/USD	1.3477	-0.0014
EUR/GBP	0.8411	0.0051

INT RATES	NZ	Australia
OCR/Cash	0.75%	0.10%
90 day bills	1.07%	0.07%
2 year swap	2.36%	1.13%
10 year Govt	2.53%	1.94%

PMIs point to a weakening global economy!

Similar to 'the night of the long knives,' last night was 'the night of the poor PMIs.'

In the US, the IHS Markit composite PMI index slumped to 50.8 in January, from 57.0 in December, signalling the slowest pace of expansion in business activity since July 2020.

Furthermore, the Chicago Fed National activity index contracted to -0.15 in December from November's +0.44, as the services sector was hit by renewed COVID-19 restrictions although manufacturing production rose to its highest

level in five months amid signs of easing supply chain constraints.

While Goldman Sachs is calling for four FOMC hikes in 2022, they are conscious that they may be underplaying the speed and duration of the hiking cycle, as *"We see a risk that the FOMC will want to take some tightening action at every meeting until that picture changes."*

Speaking of rate hikes, one of the local Australian banks has upgraded their domestic interest rate expectations calling for an initial hike of 15 basis points in August followed by a further hike of 25 basis points in October. That is a big call from the RBA's *"not until we see wage inflation"* rhetoric.

Speaking of Australia, the Markit preliminary PMIs for January weakened significantly after the manufacturing sector contracted to 55.3 from December's 57.7 while the services sector shrank to 45.0 from 55.1. This saw the composite headline fall to 45.3 from December's 54.9 as *"Supply issues meanwhile remained prevalent, with a lengthening of lead times, reports of supply shortages and labour constraints persisting. This had led to input price inflation worsening."*

The Eurozone's IHS Markit composite PMIs declined to 52.4 in January from 53.3 for a second consecutive month of slowing business activity with the pace of expansion hitting an 11 month low.

Finally, Japanese services PMI plunged to 46.6 in January, from December's 52.5,

highlighting the index's first contraction in services activity in four months and the steepest pace since August. Although, the manufacturing PMIs inched up to 54.6 in January from 54.3 to record the 12th straight month of growth in factory activity and the strongest growth since January 2018.

In China, following on from last week's cuts of the overnight, 7-day reverse repo, 1-month SLF, 1-year MLF, and the 1-year and 5-year LPR's, the PBoC also cut its 14-day reverse repo 10 pips to 2.25%.

Surely there was some good news?

No, and don't call me 'Shirley'!

With the PMIs pointing to a contraction of the global economy, equity markets bore the brunt with most indexes down between -2.0 and -4.0% as investors reverted to bonds – which saw the T-bond yield ease to 1.71% – while the German bund, which went positive at one stage this month, saw its yield fall to -0.11%.

Commodities were also hit with crude off -2.0%, although gold inched higher on the increased threat of Russian military action while the crypto also found some support. The VIX rallied past the 30.0% level to 35.0% while the commodity currencies also came under pressure, with the AUD hit particularly hard although the EUR held up rather well. The NZD was somewhere in between.



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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	71.69					CAD	0.8457
NZD/USD	0.6686	-0.0003	-0.0011	-0.0028	-0.0074	CHF	0.6104
NZD/AUD	0.9381	-0.0006	-0.0021	-0.0048	-0.0112	CNY	4.2331
NZD/JPY	76.03	-0.06	-0.21	-0.54	-1.54	DKK	4.3905
NZD/EUR	0.5899	-0.0007	-0.0023	-0.0054	-0.0140	FJD	1.4199
NZD/GBP	0.4962	-0.0002	-0.0006	-0.0016	-0.0045	HKD	5.2060
						KRW	799.84
AU TWI	60.30					MYR	2.8076
AUD/USD	0.7127	0.0001	0.0003	0.0007	0.0006	NOK	6.0064
AUD/NZD	1.0660	0.0007	0.0023	0.0055	0.0129	SEK	6.2036
AUD/JPY	81.04	-0.01	-0.05	-0.16	-0.68	SGD	0.9000
AUD/EUR	0.6287	-0.0003	-0.0010	-0.0026	-0.0075	TWD	18.53
AUD/GBP	0.5288	0.0001	0.0005	0.0011	0.0015	ZAR	10.2523
							10.9288
USD Index	95.87					EQUITIES	
EUR/USD	1.1335	0.0008	0.0024	0.0058	0.0146		Index
USD/JPY	113.72	-0.03	-0.12	-0.34	-1.05	NZX50	12,191
GBP/USD	1.3477	-0.0002	-0.0006	-0.0014	-0.0027	ASX200	7,140
EUR/GBP	0.8411	0.0007	0.0022	0.0051	0.0125	Dow Jones	33,718
						S&P 500	4,295
						FTSE100	7,297
						DAX 30	15,011
						Nikkei	27,588
INTEREST		New Zealand		Australia		COMMODITIES	
RATES		Borrow	Invest	Borrow	Invest		USD
30 day bank bills		0.86%	0.83%	0.02%	0.02%	Dubai Light	86.11
90 day bank bills		1.10%	1.07%	0.09%	0.05%	Brent Crude	86.20
FRA 90d in 3mths		1.67%	1.64%	0.35%	0.32%	Gold	1,841.80
FRA 180d in 6mths		2.35%	2.32%	0.97%	0.96%	Silver	23.86
1 year swap		1.87%	1.84%	0.54%	0.54%	CRB Index	264.16
2 year swap		2.37%	2.35%	1.15%	1.12%		NZD
3 year swap		2.60%	2.57%	1.52%	1.49%	NZ Carbon	75.00
5 year swap		2.73%	2.70%	1.81%	1.80%		
10 year swap		2.83%	2.80%	2.16%	2.14%		
10 year Govt bond			2.51%		1.94%		

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