

# Market Alert

Wednesday 17 May 2023

CURRENCIES	Spot	6mths
NZD/USD	0.6225	-0.0011
NZD/AUD	0.9358	-0.0073
NZD/JPY	84.88	-2.50
NZD/EUR	0.5733	-0.0062
NZD/GBP	0.4988	-0.0021
NZD/CNH	4.3575	-0.0707
AUD/USD	0.6652	0.0041
AUD/EUR	0.6124	-0.0020
EUR/USD	1.0858	0.0100
USD/CNH	6.9981	-0.1018
GBP/USD	1.2478	0.0030
EUR/GBP	0.8702	0.0057

  

INT RATES	NZ	Australia
OCR/Cash	5.25%	3.85%
90 day bills	5.67%	3.96%
2 year swap	5.03%	3.68%
10 year Govt	4.21%	3.49%

## A load of hot air...

There were no less than 7 Fed speakers overnight which surely isn't good news for climate change – however, only two actually mentioned anything somewhat useful, but nothing we haven't heard before.

On the never-ending inflationary narrative, Federal Reserve Bank of Cleveland President Loretta Mester voiced her opinion that she does not believe that the Fed is at a point yet where it can hold rates steady, given how persistent inflationary pressures have been. *"The approach I'm taking is that I would like the policy rate to get to a point where, when I'm thinking about what the next policy change would be, I want it to be equally a potential increase versus a decrease."* Adding, *"I need to see more*

*evidence that inflation is still moving down, I think that we just have to stick with what we're doing."*

Richmond Fed President Thomas Barkin sung from a similar, if not identical script, suggesting that the possibility that inflation comes down quickly with only a modest economic slowdown does exist, however adding, *"I'm not yet convinced ... I do wonder whether we're not going to need more impact on demand to bring inflation down to where we need to go."* There is certainly a difference between what is possible and what is probable, and it seems sentiment and market messaging suggest the latter does not apply to 'inflation coming down quickly with only a modest economic slowdown'.

Chinese data out yesterday disappointed despite an improvement in many metrics. Retail sales were up 18.4% from a year ago but fell short of expectations at 22.0%. Industrial production was an even bigger miss, up 5.6% in the year to April but well below expectations of 10.9% growth.

The RBA May meeting minutes told us nothing we didn't know, so let's keep it brief. The board *"considered pausing or hiking 25 basis points in May's policy decision, further increases in interest rates may still be required, (the RBA is) determined to do what is required to bring inflation to target."* Interestingly, former RBA governor Glenn Stevens said he believes interest rates will *"be elevated for some time"* and that *"a return to the ultra-low rates that we saw for a while there is unlikely."*

## A deep hole is appearing

According to Reuters, the New Zealand Government will announce a bigger than expected deficit and economic outlook on Thursday as it delivers what it calls a *"no frills"* 2023-24 budget to avoid fuelling inflation. The Auckland Anniversary floods, and Cyclone Gabrielle are expected to have cost NZD9 billion and 14.5 billion respectively, with the government expected to foot half of each bill. Spending cuts have saved NZD4 billion, but the planned surplus is likely a pipe dream now with Treasury's most recent results showing that tax take for the nine months to March 2023 was 2.7% less than forecast.

Markets were mixed overnight; equity market indices collectively were down marginally as some disappointing earnings results and outlooks took its toll. The NZD/USD pair is largely flat and is currently at 0.6231, this could go either way following the budget announcement. We (NZD) are also up a half-cent on the AUD cross at 0.9359.



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# Daily Rates

Wednesday 17 May 2023

FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	71.50					CAD	0.8392	0.8970
NZD/USD	0.6225	-0.0001	-0.0004	-0.0011	-0.0039	CHF	0.5579	0.5964
NZD/AUD	0.9358	-0.0013	-0.0038	-0.0073	-0.0140	CNY	4.3420	4.6398
NZD/JPY	84.88	-0.43	-1.24	-2.50	-4.90	DKK	4.2677	4.5604
NZD/EUR	0.5733	-0.0012	-0.0033	-0.0062	-0.0123	FJD	1.3624	1.4559
NZD/GBP	0.4988	-0.0004	-0.0012	-0.0021	-0.0040	HKD	4.8790	5.2137
						KRW	835.53	892.84
AU TWI	60.70					MYR	2.7950	2.9867
AUD/USD	0.6652	0.0008	0.0022	0.0041	0.0053	NOK	6.6758	7.1337
AUD/NZD	1.0682	0.0014	0.0039	0.0081	0.0153	SEK	6.4784	6.9230
AUD/JPY	90.71	-0.34	-0.98	-1.99	-3.99	SGD	0.8343	0.8916
AUD/EUR	0.6124	-0.0004	-0.0011	-0.0020	-0.0044	TWD	19.20	20.51
AUD/GBP	0.5331	0.0003	0.0009	0.0019	0.0036	ZAR	11.89	12.71
USD Index	102.58					<b>EQUITIES</b>		
EUR/USD	1.0858	0.0020	0.0053	0.0100	0.0165		<b>Index</b>	
USD/JPY	136.31	-0.68	-1.91	-3.80	-7.10	NZX50	11,946	
GBP/USD	1.2478	0.0009	0.0021	0.0030	0.0020	ASX200	7,235	
EUR/GBP	0.8702	0.0010	0.0029	0.0057	0.0117	Dow Jones	33,014	
						S&P 500	4,122	
<b>INTEREST RATES</b>			<b>New Zealand</b>		<b>Australia</b>	FTSE100	7,751	
			<b>Mid</b>		<b>Mid</b>	DAX 30	15,898	
30 day bank bills			5.58%		3.87%	Nikkei	29,843	
90 day bank bills			5.67%		3.96%	<b>COMMODITIES</b>		
1 year swap			5.59%		3.91%		<b>USD</b>	
2 year swap			5.03%		3.68%	Brent Crude	74.75	
3 year swap			4.65%		3.52%	Gold	1,990.35	
5 year swap			4.32%		3.50%	Silver	23.77	
10 year swap			4.23%		3.85%	Iron Ore	106.77	
3 year Govt bond			4.35%		3.15%	CRB Index	287.14	
5 year Govt bond			4.13%		3.17%		<b>NZD</b>	
10 year Govt bond			4.21%		3.49%	NZ Carbon	51.95	

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