



MARKET ALERT

Monday 11 February 2019 | www.bancorptreasury.com

CURRENCIES	Spot	6mths
NZD/USD	0.6741	0.0024
NZD/AUD	0.9512	0.0008
NZD/JPY	73.98	-0.84
NZD/EUR	0.5952	-0.0071
NZD/GBP	0.5207	-0.0029
NZD/CNH	4.5726	0.0125
AUD/USD	0.7091	0.0019
AUD/EUR	0.6261	-0.0080
EUR/USD	1.1326	0.0176
USD/CNH	6.7820	-0.0051
GBP/USD	1.2950	0.0118
EUR/GBP	0.8746	0.0056

INT RATES	NZ	Australia
OCR/Cash	1.75%	1.50%
90 day bills	1.91%	2.01%
2 year swap	1.80%	1.73%
10 year Govt	2.10%	2.10%

Australian markets on the canvas again

Just when Australian markets were climbing off the canvas on Friday after a few solid blows, the RBA released its *Statement on Monetary Policy* (“SMP”) and sent the markets into another spin. The RBA lowered its key economic forecasts.

GDP growth is expected to be 3.00% this year, and 2.75% in 2020 and 2021, a 0.25% downward revision. The RBA also lowered its forecasts for consumption growth, dwelling investments,

employment growth, wage inflation and inflation (both headline and core).

The detail in the SMP put into greater context Wednesday’s dovish comments by RBA Governor, Philip Lowe.

Markets’ response, naturally, was to push down the AUD and Australian swap rates. The AUD/USD dropped 25 points almost instantly. It ended the week just under 0.7100, from around 0.7250 at the end of the previous week. The AUD tried to pull down the NZD with it but with little success with the NZD/AUD climbing to 0.9550 before easing back.

Australian swap rates, already reeling from dramatic falls over previous days, fell again as markets increased the odds of an RBA rate cut this year to almost 100%, from about 40% a week ago. Australian swap rates beyond 1 year fell between 2 bps and 4 bps on Friday.

Swap rates down again

Lower Australian swap rates had more of an impact on New Zealand swap rates than the AUD did on the NZD. New Zealand swap rates, already under intense pressure from weaker than expected labour market data and falling bond yields globally fell again. Swap rates out to 7 years set record lows for the second day in a row. The 10 year swap rate missed a record low by less than a basis point.

Another fall by global bond yields over the weekend should keep downward pressure on New Zealand and Australian swap rates today.

This week it is New Zealand’s turn to worry about how its central bank views recent data, global developments (and threats) and lower swap rates. The MPS is due for release on Wednesday afternoon (a change from Thursday mornings). The last MPS and Governor Adrian Orr’s accompanying and subsequent language was more dovish than expected — a theme since repeated by other central bank heads. It will be interesting to hear his view on markets’ pricing an OCR cut this year as a near certainty (92%).

US — same old, same old

Negotiations in Washington over government funding and Trump’s southern border wall broke down over the weekend. Hopefully, agreement will be reached before Friday when the current temporary funding bill runs out but many are pessimistic given the Democrats renewed determination to stand up to the a Republican Senate and President since they gained control of the House of Representatives. The recent record long government shutdown and extreme weather events would have taken some of the gloss off US economic growth. More of the same will start to hurt US and global sentiment.



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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	73.41					CAD	0.8949 0.9408
NZD/USD	0.6741	0.0004	0.0012	0.0024	0.0046	CHF	0.6746 0.7092
NZD/AUD	0.9512	0.0002	0.0004	0.0008	0.0011	CNY	4.5469 4.7804
NZD/JPY	73.98	-0.11	-0.41	-0.84	-1.73	DKK	4.4436 4.6718
NZD/EUR	0.5952	-0.0010	-0.0035	-0.0071	-0.0143	FJD	1.4395 1.5134
NZD/GBP	0.5207	-0.0004	-0.0015	-0.0029	-0.0057	HKD	5.2910 5.5627
						KRW	757.72 796.64
AU TWI	60.40					MYR	2.7491 2.8902
AUD/USD	0.7091	0.0003	0.0009	0.0019	0.0041	NOK	5.8212 6.1201
AUD/NZD	1.0514	-0.0002	-0.0004	-0.0009	-0.0012	SEK	6.2520 6.5731
AUD/JPY	77.80	-0.13	-0.47	-0.95	-1.90	SGD	0.9146 0.9616
AUD/EUR	0.6261	-0.0012	-0.0040	-0.0080	-0.0157	TWD	20.79 21.86
AUD/GBP	0.5473	-0.0005	-0.0018	-0.0035	-0.0066	ZAR	9.1861 9.6579
USD Index	96.64						
EUR/USD	1.1326	0.0026	0.0087	0.0176	0.0358	EQUITIES	
USD/JPY	109.72	-0.24	-0.80	-1.62	-3.30		Index
GBP/USD	1.2950	0.0018	0.0059	0.0118	0.0234	NZX50	9,177
EUR/GBP	0.8746	0.0008	0.0027	0.0056	0.0117	ASX200	6,071
						Dow Jones	25,106
						S&P 500	2,708
						FTSE100	7,071
						DAX 30	10,907
						Nikkei	20,333
						COMMODITIES	
							USD
						Dubai Light	62.06
						Brent Crude	62.10
						Gold	1,314.45
						Silver	15.84
						CRB Index	184.98

INTEREST RATES	New Zealand		Australia	
	Borrow	Invest	Borrow	Invest
30 day bank bills	1.87%	1.83%	2.00%	1.98%
90 day bank bills	1.93%	1.89%	2.02%	2.00%
FRA 90d in 3mths	1.84%	1.82%	1.85%	1.80%
FRA 180d in 6mths	1.81%	1.78%	1.90%	1.86%
1 year swap*	1.86%	1.83%	1.84%	1.83%
2 year swap*	1.81%	1.78%	1.74%	1.71%
3 year swap*	1.82%	1.79%	1.72%	1.71%
5 year swap*	1.96%	1.93%	1.98%	1.96%
10 year swap*	2.42%	2.39%	2.33%	2.32%
10 year Govt bond		2.08%		2.10%

* Semi-annual rate resets except AU 1,2,3 yr quarterly

SOURCE: Bloomberg

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