



# MARKET ALERT

Tuesday 13 February 2018 | www.bancorptreasury.com

CURRENCIES	Spot	6 mths
NZD/USD	0.7245	-0.0006
NZD/AUD	0.9237	-0.0010
NZD/JPY	78.75	-1.02
NZD/EUR	0.5899	-0.0082
NZD/GBP	0.5241	-0.0045
NZD/CNH	4.5851	0.0441
AUD/USD	0.7843	0.0002
AUD/EUR	0.6385	-0.0082
EUR/USD	1.2283	0.0163
USD/CNH	6.3290	0.0660
GBP/USD	1.3827	0.0108
EUR/GBP	0.8884	0.0049

  

INT RATES	NZ	Australia
OCR/Cash	1.75%	1.50%
90 day bills	1.91%	1.77%
2 year swap	2.16%	2.02%
10 year Govt	2.99%	2.91%

## Space station for sale

Yesterday President Trump unveiled his suggested budget for the 2019 fiscal year and it reads pretty much as you would expect, adding an estimated USD7.2 trillion to the nations already ballooning debt over the next decade.

The budget calls for extra spending on the military, USD23 billion extra for a border wall with Mexico ('wait, I thought Mexico was going to pay for it?' I hear you ask ...) and the usual cuts to Medicare, student loan subsidies, pension benefits for federal workers and food stamps.

There are also cuts which just seem cynical, such as a 34% cut to the environmental protection agency, and a complete defunding of the international space station by 2025. The budget goes against the plan put in place late last week by congress that would have limited the deficit to USD300 billion next year.

The White House also released its projections for GDP, inflation, unemployment and the like, to go along with budget. GDP has been upgraded to 3.0% this year from 2.4%, with 3.2% in 2019 and 3.1% in 2020.

Inflation forecasts have been reduced, to 2.1% in 2018, 2.0% in 2019 and 2.2% in 2020, all down from 2.3%. Unemployment looks optimistic to say the least, with the jobless rate expected to be 3.9% this year down from 4.4%, 3.7% in 2019 down from 4.6%, and 3.8% in 2020 from 4.7%.

The obvious questions here are: Why are the deficits ballooning when growth is forecast to be strong and unemployment so low? What happens if there is a recession?

## Markets recover from turbulence

Financial markets are trying to stabilise after the worst week in two years for US equities. The Dow Jones jumped 1.6% on Monday and the Nasdaq by 1.5% while the S&P 500 rose 1.4%, much to the relief of uncertain investors. Still, the markets remain sharply lower for the

month, following some heavy selling, including from failed bets on low stock market volatility.

Shares of energy companies rose with oil prices, giving the majority of indexes a boost. US crude oil rose 1.1% to USD59.87 a barrel after sliding last week on worries of rising US production.

Across the globe, stocks rallied lifting the Stoxx Europe 600 1.7%, while the Shenzhen Composite (small caps in China) led Asia with a 2.6% rise. Only the ASX 200 index fell 0.6% as a powerful government appointed inquiry into the nation's financial industry starts, led by the shares of the big-four banks.

Investors have been questioning whether the declines seen are reflecting a short term technical correction or the start of a reassessment of the financial climate in light of less support from central banks.

Rising bond yields raised concerns about the possibility of central banks increasing rates faster than expected. The yield on the 10 year US treasury rose to a high of 2.89% overnight.

All eyes now will be on US CPI data due on Wednesday with some trepidation, and a stronger result is likely to support high rates. The USD dipped as stocks rebounded with the dollar index down 0.1% with the NZD/USD rising to 0.7275 before finding support below 0.7250.

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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	74.73					<b>CAD</b>	0.9131	0.9885
NZD/USD	0.7245	-0.0002	-0.0005	-0.0006	-0.0004	<b>CHF</b>	0.6801	0.7362
NZD/AUD	0.9237	-0.0002	-0.0006	-0.0010	-0.0018	<b>CNY</b>	4.5861	4.9649
NZD/JPY	78.75	-0.15	-0.51	-1.02	-2.12	<b>DKK</b>	4.3931	4.7559
NZD/EUR	0.5899	-0.0012	-0.0041	-0.0082	-0.0168	<b>FJD</b>	1.4755	1.5973
NZD/GBP	0.5241	-0.0007	-0.0024	-0.0045	-0.0085	<b>HKD</b>	5.6658	6.1338
						<b>KRW</b>	785.04	849.88
AU TWI	63.90					<b>MYR</b>	2.8561	3.0920
AUD/USD	0.7843	-0.0001	-0.0001	0.0002	0.0012	<b>NOK</b>	5.7366	6.2105
AUD/NZD	1.0826	0.0002	0.0007	0.0012	0.0021	<b>SEK</b>	5.8487	6.3318
AUD/JPY	85.25	-0.15	-0.50	-1.01	-2.13	<b>SGD</b>	0.9594	1.0386
AUD/EUR	0.6385	-0.0012	-0.0040	-0.0082	-0.0169	<b>TWD</b>	21.24	22.99
AUD/GBP	0.5672	-0.0007	-0.0023	-0.0042	-0.0080	<b>ZAR</b>	8.6202	9.3323
US TWI	85.20							
EUR/USD	1.2283	0.0022	0.0077	0.0163	0.0353	<b>EQUITIES</b>		
USD/JPY	108.71	-0.17	-0.63	-1.33	-2.87			<b>Index</b>
GBP/USD	1.3827	0.0015	0.0054	0.0108	0.0220	<b>NZX50</b>		8,059
EUR/GBP	0.8884	0.0006	0.0021	0.0049	0.0113	<b>ASX200</b>		5,821
						<b>Dow Jones</b>		24,671
						<b>S&amp;P 500</b>		2,661
						<b>FTSE100</b>		7,177
						<b>DAX 30</b>		12,283
						<b>Nikkei</b>		21,383
						<b>COMMODITIES</b>		
								<b>USD</b>
						<b>Dubai Light</b>		60.92
						<b>Brent Crude</b>		63.17
						<b>Gold</b>		1,324.10
						<b>Silver</b>		16.57
						<b>CRB Index</b>		192.86

  

INTEREST RATES	New Zealand		Australia	
	Borrow	Invest	Borrow	Invest
30 day bank bills	1.82%	1.78%	1.68%	1.66%
90 day bank bills	1.93%	1.89%	1.77%	1.77%
FRA 90d in 3mths	1.96%	1.93%	1.84%	1.79%
FRA 180d in 6mths	2.07%	2.03%	2.04%	2.00%
1 year swap*	2.00%	1.96%	1.86%	1.84%
2 year swap*	2.18%	2.14%	2.03%	2.02%
3 year swap*	2.39%	2.35%	2.21%	2.20%
5 year swap*	2.78%	2.70%	2.63%	2.62%
10 year swap*	3.33%	3.30%	3.05%	3.04%
10 year Govt bond		2.97%		2.91%

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

SOURCE: Bloomberg

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