



MARKET ALERT

Monday 13 May 2019 | www.bancorptreasury.com

CURRENCIES	Spot	6mths
NZD/USD	0.6583	0.0026
NZD/AUD	0.9422	-0.0003
NZD/JPY	72.24	-0.74
NZD/EUR	0.5861	-0.0065
NZD/GBP	0.5066	-0.0025
NZD/CNH	4.5137	0.0277
AUD/USD	0.6988	0.0030
AUD/EUR	0.6220	-0.0067
EUR/USD	1.1234	0.0171
USD/CNH	6.8563	0.0153
GBP/USD	1.2997	0.0115
EUR/GBP	0.8644	0.0055

INT RATES	NZ	Australia
OCR/Cash	1.50%	1.50%
90 day bills	1.70%	1.65%
2 year swap	1.62%	1.37%
10 year Govt	1.82%	1.73%

Tariffs in place

The lift in tariffs from 10% to 25% on USD 200 billion of goods exported from China to the US was enacted on Friday. There was concern that volatility in stock and FX markets would spike, but the response was largely muted as there has not been any response from China yet. The NZD/USD bounced around either side of 0.6600 and the AUD/USD did the same around 0.7000 with little direction.

The talks concluded for now with no resolution. China’s top negotiator, Liu He, said he was *“cautiously optimistic”*

regarding the future of the talks, and called them *“candid and constructive.”* The two parties have agreed to reconvene in Beijing, although a date has not been set down. Following the talks Trump suggested the tariffs *“may or may not be removed.”*

However, volatility is likely to spike at Monday’s open thanks to ‘Trump Tweets’ over the weekend. He suggested *“China felt they were being beaten so badly in the recent negotiation that they may as well wait around for the next election”* and hope for a Democrat win, in which case they *“would continue to rip-off the USA for \$500 Billion a year.”* He warned that since he would win the next election, a deal would be worse in his second term, so they better act now.

Larry Kudlow tempered those comments by reminding us that this is still a ‘negotiation’ not a ‘war.’ Meanwhile China has set out its demands: the US to remove all additional tariffs; the target set by the US on goods purchased by China should be matched by real demand; and the wording of the draft agreement’s text.

RBA puts its case, again

The RBA’s quarterly *Statement on Monetary Policy*, released on Friday, did not resolve the debate between markets and RBA on the RBA’s next move. The Overview text was an elaboration on last Tuesday’s post-meeting statement that

concluded with *“the Board will be paying close attention to developments in the labour market at its upcoming meetings.”*

Markets took the RBA’s lower forecast for growth and inflation as endorsing pricing for an RBA cash rate cuts in September this year and some time in the first half of 2020. The RBA’s growth, inflation and unemployment forecasts, especially for the period 2 to 3 years ahead, are consistent with the RBA’s neutral stance.

The RBA forecasts annual GDP growth to slow from 2.3% in the December 2018 year to 1.7% in the June 2019 year but rise to 2.7% in June 2020 and stay at or above that level after that.

Underlying annual inflation, specifically trimmed mean inflation, is forecast to rise from 1.8% in the December 2018 year to 1.9% in December 2019 and be either 2.0% or 2.1% after that. The unemployment rate is forecast to remain at its present 5.0% through to the end of 2020 and ease very gradually after that.

However, there is very little room for slippage in the forecasts before a rate cut is justified or warranted. Hence, the RBA’s *“close attention to developments in the labour market.”*

**BANCORP**

BANCORP TREASURY SERVICES LIMITED

DAILY RATES

Monday 13 May 2019 | www.bancorptreasury.com

FX	Spot	FECs (mid)				Spot Mid	
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...
NZ TWI	72.33					CAD 0.8839	0.9382
NZD/USD	0.6583	0.0005	0.0013	0.0026	0.0047	CHF 0.6678	0.7088
NZD/AUD	0.9422	0.0000	0.0000	-0.0003	-0.0013	CNY 4.5039	4.7804
NZD/JPY	72.24	-0.12	-0.38	-0.74	-1.51	DKK 4.3752	4.6438
NZD/EUR	0.5861	-0.0011	-0.0033	-0.0065	-0.0130	FJD 1.4237	1.5111
NZD/GBP	0.5066	-0.0004	-0.0013	-0.0025	-0.0047	HKD 5.1674	5.4846
						KRW 775.03	822.62
AU TWI	60.20					MYR 2.7425	2.9109
AUD/USD	0.6988	0.0005	0.0014	0.0030	0.0059	NOK 5.7439	6.0965
AUD/NZD	1.0614	0.0000	0.0000	0.0004	0.0014	SEK 6.3341	6.7230
AUD/JPY	76.67	-0.13	-0.40	-0.75	-1.50	SGD 0.8974	0.9524
AUD/EUR	0.6220	-0.0012	-0.0035	-0.0067	-0.0130	TWD 20.43	21.69
AUD/GBP	0.5376	-0.0005	-0.0014	-0.0024	-0.0042	ZAR 9.3207	9.8930
USD Index	97.33						
EUR/USD	1.1234	0.0029	0.0086	0.0171	0.0338	EQUITIES	
USD/JPY	109.73	-0.26	-0.80	-1.54	-3.06		Index
GBP/USD	1.2997	0.0020	0.0060	0.0115	0.0215	NZX50	10,099
EUR/GBP	0.8644	0.0009	0.0027	0.0055	0.0115	ASX200	6,311
						Dow Jones	25,942
						S&P 500	2,881
						FTSE100	7,203
						DAX 30	12,060
						Nikkei	21,345
						COMMODITIES	
							USD
						Dubai Light	70.07
						Brent Crude	70.62
						Gold	1,285.95
						Silver	14.77
						CRB Index	187.06

INTEREST RATES	New Zealand		Australia	
	Borrow	Invest	Borrow	Invest
30 day bank bills	1.68%	1.64%	1.68%	1.66%
90 day bank bills	1.72%	1.68%	1.67%	1.63%
FRA 90d in 3mths	1.69%	1.61%	1.46%	1.41%
FRA 180d in 6mths	1.58%	1.55%	1.47%	1.43%
1 year swap*	1.65%	1.63%	1.44%	1.43%
2 year swap*	1.63%	1.61%	1.37%	1.36%
3 year swap*	1.65%	1.63%	1.37%	1.36%
5 year swap*	1.76%	1.74%	1.63%	1.60%
10 year swap*	2.15%	2.13%	1.99%	1.98%
10 year Govt bond		1.80%		1.73%

* Semi-annual rate resets except AUD 1,2,3 year quarterly

SOURCE: Bloomberg

This document has been prepared by Bancorp Treasury Services Limited ("BTSL"). Whilst all reasonable care has been taken to ensure the facts stated are accurate and the opinions given are fair and reasonable, neither BTSL nor any of its directors, officers or employees shall in any way be responsible for the contents. No liability is assumed by BTSL, its directors, officers or employees for action taken or not taken on the basis of this document.