



MARKET ALERT

Tuesday 18 December 2018 | www.bancorptreasury.com

CURRENCIES	Spot	6mths
NZD/USD	0.6804	0.0020
NZD/AUD	0.9475	0.0002
NZD/JPY	76.70	-0.97
NZD/EUR	0.5992	-0.0078
NZD/GBP	0.5391	-0.0033
NZD/CNH	4.6925	0.0190
AUD/USD	0.7181	0.0019
AUD/EUR	0.6324	-0.0083
EUR/USD	1.1355	0.0182
USD/CNH	6.8972	0.0077
GBP/USD	1.2621	0.0115
EUR/GBP	0.8997	0.0062

INT RATES	NZ	Australia
OCR/Cash	1.75%	1.50%
90 day bills	1.97%	2.02%
2 year swap	2.07%	1.96%
10 year Govt	2.47%	2.44%

Better Australian fiscal position

The Australian Federal Government's *Mid-Year Economic and Fiscal Outlook* ("MYEFO"), released yesterday, shows a better fiscal position and outlook thanks to a surge in tax revenue and mining industry profits.

Those better gains came almost exclusively from higher coal and iron ore prices and sales assumed in the May Budget, which has more than offset the impact of drought on Australia's agricultural production and exports.

The Federal Government now predicts a deficit this fiscal year of AUD5.2 billion (0.3% of GDP), versus the previous AUD14.5 billion (0.8% of GDP) forecast. The good news story extends into future years, with more upbeat economic forecasts and higher fiscal surpluses in future years.

Real GDP is forecast to rise 2.75% this fiscal year, compared to 2.8% in the 2018/19 year, and be steady at 3.0% for the ensuing three years. The unemployment rate is forecast to fall to 5.0% this fiscal year and remain there for the following three years.

Government tax revenues over the next four fiscal years have been revised up by AUD12.4 billion. Applying those higher surpluses to debt reduction, Australia's net debt to GDP ratio is forecast to be 15.8% this fiscal year and 14.3% in the 2019/20 year (down from 16.1% and 14.7% respectively in the May Budget).

All of these numbers assume better economic conditions and no increase in government spending. However, a Federal election must be held before May next year and the incumbent coalition government is under increasing fire — both enemy and (supposedly) friendly.

The MYEFO's good news story gave the AUD a marginal lift but that was soon reversed when markets assessed the many optimistic assumptions (on the economy, revenue and spending) and considered the (high) probability of pre-election

sweeteners that would eliminate (spend) a lot of these gains.

A weaker USD overnight helped the AUD overcome any fiscal negativity and also lifted the NZD/USD back above 0.6800, with the NZD/AUD seemingly stuck at 0.9470.

Weak Eurozone inflation

Eurozone CPI fell 0.2% in November, taking the annual rate to 1.9%, down from 2.2% in October. The initial estimate for the annual figure was 2.0%, adding to the markets' disappointment. Core CPI fell 0.3% in November, which pulled the annual rate from 1.1% in October to 1.0% in November, which matched the initial estimate. The energy category made the highest contribution to annual inflation but this will likely unwind given recent downward moves in oil prices.

Slowing inflation should worry the ECB because it is in the process of weaning Eurozone economies and markets off ultra-easy monetary policy settings. It is expecting core CPI to ease but to settle a higher level. Last week, it lowered its forecast for core inflation for this year from 1.8% to 1.7% and for next year from 1.7% to 1.6%.

Any EUR negativity overnight from the CPI data was offset by USD weakness. Both the USD and Treasury yields edged lower as markets nervously await the outcome of tomorrow's FOMC meeting.

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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	74.63					CAD	0.9119	0.9624
NZD/USD	0.6804	0.0003	0.0009	0.0020	0.0041	CHF	0.6752	0.7126
NZD/AUD	0.9475	0.0000	0.0001	0.0002	0.0002	CNY	4.6928	4.9530
NZD/JPY	76.70	-0.24	-0.51	-0.97	-1.92	DKK	4.4744	4.7225
NZD/EUR	0.5992	-0.0017	-0.0039	-0.0078	-0.0154	FJD	1.4491	1.5294
NZD/GBP	0.5391	-0.0008	-0.0017	-0.0033	-0.0062	HKD	5.3150	5.6097
						KRW	769.34	812.01
AU TWI	62.20					MYR	2.8485	3.0064
AUD/USD	0.7181	0.0003	0.0009	0.0019	0.0042	NOK	5.8737	6.1994
AUD/NZD	1.0555	0.0000	-0.0001	-0.0003	-0.0002	SEK	6.1592	6.5008
AUD/JPY	80.96	-0.26	-0.55	-1.04	-2.05	SGD	0.9344	0.9862
AUD/EUR	0.6324	-0.0018	-0.0042	-0.0083	-0.0164	TWD	20.98	22.14
AUD/GBP	0.5690	-0.0009	-0.0019	-0.0036	-0.0067	ZAR	9.8128	10.3570
USD Index	97.06							
EUR/USD	1.1355	0.0037	0.0090	0.0182	0.0371	EQUITIES		
USD/JPY	112.75	-0.41	-0.91	-1.75	-3.49			Index
GBP/USD	1.2621	0.0025	0.0058	0.0115	0.0225	NZX50		8,746
EUR/GBP	0.8997	0.0012	0.0030	0.0062	0.0131	ASX200		5,658
						Dow Jones		23,827
						S&P 500		2,573
						FTSE100		6,773
						DAX 30		10,772
						Nikkei		21,507
						COMMODITIES		
								USD
						Dubai Light		58.39
						Brent Crude		59.85
						Gold		1,247.20
						Silver		14.68
						CRB Index		184.57

INTEREST RATES	New Zealand		Australia	
	Borrow	Invest	Borrow	Invest
30 day bank bills	1.90%	1.86%	1.94%	1.92%
90 day bank bills	1.99%	1.95%	2.02%	2.02%
FRA 90d in 3mths	2.02%	2.01%	1.99%	1.94%
FRA 180d in 6mths	2.04%	2.01%	2.09%	2.05%
1 year swap*	2.03%	2.00%	1.98%	1.94%
2 year swap*	2.08%	2.05%	1.97%	1.96%
3 year swap*	2.16%	2.13%	2.02%	2.01%
5 year swap*	2.36%	2.32%	2.34%	2.32%
10 year swap*	2.78%	2.75%	2.65%	2.65%
10 year Govt bond		2.45%		2.44%

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

SOURCE: Bloomberg

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