



# MARKET ALERT

Thursday 20 December 2018 | [www.bancorptreasury.com](http://www.bancorptreasury.com)

CURRENCIES	Spot	6mths
NZD/USD	0.6824	0.0021
NZD/AUD	0.9563	0.0001
NZD/JPY	76.63	-0.95
NZD/EUR	0.5989	-0.0078
NZD/GBP	0.5404	-0.0033
NZD/CNH	4.7084	0.0178
AUD/USD	0.7135	0.0021
AUD/EUR	0.6262	-0.0082
EUR/USD	1.1394	0.0185
USD/CNH	6.9014	0.0050
GBP/USD	1.2627	0.0115
EUR/GBP	0.9023	0.0064

  

INT RATES	NZ	Australia
OCR/Cash	1.75%	1.50%
90 day bills	1.97%	2.04%
2 year swap	2.04%	1.95%
10 year Govt	2.44%	2.39%

## Just focus on the dots

In a well signalled and universally expected move, yesterday’s FOMC meeting voted unanimously to raise the range for the Fed Funds rate by another 25bps to 2.25%-2.50%. The big news, and market focus, was the language and the new dot plot.

The language used in conveying the decision was little changed, stating that the unemployment rate has gone from “declined” to “remained low” and risks have gone from “appear roughly balanced” to “are roughly balanced.”

The FOMC has gone from expecting further gradual interest rate rises to **judging some** further gradual interest rate rises and then implied that its next move is data dependent. Significantly, the Fed left in the comment about further gradual interest rate rises.

The dot plot is lower and implies two rate rises in total in 2019 and 2020 and a “longer run” (i.e. neutral) rate of 2.80%, from 3.00% in September, despite slightly higher GDP and lower unemployment rate forecasts (inflation forecasts are lower for 2018 and 2019 but unchanged thereafter).

On balance, the FOMC statement and dot plot were not as dovish as many expected, which resulted in a surge by the USD but lower US stockmarkets (down about 1.5%) and a flatter US yield curve (2 year Treasury yield up on the higher than expected dot plot but the 10 year yield down due to a more hawkish than expected Fed approach).

The USD surge caused the NZD/USD and AUD/USD to quickly lose 50 points but the NZD and AUD were little changed against the rest, highlighting how much the move was USD driven.

## Wider NZ current account deficit

New Zealand’s current account deficit widened over the September quarter but the numbers displayed a reasonably positive position.

The annual current account deficit was \$10.5 billion, which equates to 3.6% of GDP, compared to \$9.5 billion and 3.3% in June. In dollar terms, September’s annual deficit is the largest since 2009 but, as a percentage of GDP, it is well below the 7.8% peak seen after the GFC. While trending higher, the annual current account deficit aligns with the likes of the US and Australia.

Similarly, New Zealand’s net international debt position rose by \$1.7 billion, from 53.6% of GDP in June (a record low) to 53.7% in the September quarter, as a result of lower offshore assets and higher offshore liabilities.

The current account data had no implications for the September GDP outcome, due for release today. Market consensus is for 0.5%, which would cause the annual GDP rate to fall from 2.8% in June to 2.7%. The RBNZ forecast a quarterly GDP rise of 0.7% in its November MPS.

The GDP data will most likely be overtaken in the next 24 hours by such hot offshore topics as Australian employment data (can it report three positive months or will the usual volatility return?), BoJ meeting (can it be more boring than an RBA meeting?), BoE meetings (Brexit, anyone?), and UK retail sales (repeat — Brexit anyone?). And there also will be Trump’s post-FOMC tweets.

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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	74.82					<b>CAD</b>	0.9196 0.9616
NZD/USD	0.6824	0.0004	0.0010	0.0021	0.0042	<b>CHF</b>	0.6776 0.7086
NZD/AUD	0.9563	0.0000	0.0000	0.0001	-0.0001	<b>CNY</b>	4.7025 4.9174
NZD/JPY	76.63	-0.22	-0.50	-0.95	-1.92	<b>DKK</b>	4.4724 4.6767
NZD/EUR	0.5989	-0.0016	-0.0039	-0.0078	-0.0156	<b>FJD</b>	1.4504 1.5167
NZD/GBP	0.5404	-0.0007	-0.0017	-0.0033	-0.0063	<b>HKD</b>	5.3400 5.5840
						<b>KRW</b>	767.25 802.31
AU TWI	62.10					<b>MYR</b>	2.8671 2.9981
AUD/USD	0.7135	0.0004	0.0011	0.0021	0.0044	<b>NOK</b>	5.9385 6.2099
AUD/NZD	1.0457	0.0000	0.0000	-0.0001	0.0001	<b>SEK</b>	6.2007 6.4840
AUD/JPY	80.15	-0.23	-0.53	-1.01	-2.00	<b>SGD</b>	0.9356 0.9784
AUD/EUR	0.6262	-0.0016	-0.0041	-0.0082	-0.0163	<b>TWD</b>	21.01 21.97
AUD/GBP	0.5651	-0.0008	-0.0018	-0.0035	-0.0065	<b>ZAR</b>	9.7251 10.1695
USD Index	96.64						
EUR/USD	1.1394	0.0036	0.0092	0.0185	0.0377	<b>EQUITIES</b>	
USD/JPY	112.34	-0.38	-0.91	-1.74	-3.48		<b>Index</b>
GBP/USD	1.2627	0.0024	0.0059	0.0116	0.0227	<b>NZX50</b>	8,762
EUR/GBP	0.9023	0.0011	0.0031	0.0064	0.0134	<b>ASX200</b>	5,581
						<b>Dow Jones</b>	23,728
						<b>S&amp;P 500</b>	2,573
						<b>FTSE100</b>	6,766
						<b>DAX 30</b>	10,766
						<b>Nikkei</b>	20,988
						<b>COMMODITIES</b>	
							<b>USD</b>
						<b>Dubai Light</b>	54.73
						<b>Brent Crude</b>	56.87
						<b>Gold</b>	1,248.44
						<b>Silver</b>	14.68
						<b>CRB Index</b>	181.80
<b>INTEREST RATES</b>		<b>New Zealand</b>		<b>Australia</b>			
		<b>Borrow</b>	<b>Invest</b>	<b>Borrow</b>	<b>Invest</b>		
30 day bank bills		1.89%	1.85%	1.98%	1.96%		
90 day bank bills		1.99%	1.95%	2.04%	2.04%		
FRA 90d in 3mths		2.01%	1.99%	1.97%	1.92%		
FRA 180d in 6mths		2.01%	1.98%	2.08%	2.04%		
1 year swap*		2.01%	1.99%	1.97%	1.94%		
2 year swap*		2.05%	2.03%	1.96%	1.94%		
3 year swap*		2.14%	2.12%	2.01%	1.99%		
5 year swap*		2.34%	2.32%	2.31%	2.30%		
10 year swap*		2.76%	2.74%	2.64%	2.64%		
10 year Govt bond			2.42%		2.39%		

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

SOURCE: Bloomberg

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