



MARKET ALERT

Friday 20 July 2018 | www.bancorptreasury.com

CURRENCIES	Spot	6mths
NZD/USD	0.6741	0.0003
NZD/AUD	0.9169	-0.0001
NZD/JPY	75.83	-1.01
NZD/EUR	0.5793	-0.0081
NZD/GBP	0.5183	-0.0041
NZD/CNH	4.5758	0.0218
AUD/USD	0.7352	0.0004
AUD/EUR	0.6318	-0.0088
EUR/USD	1.1636	0.0171
USD/CNH	6.7896	0.0290
GBP/USD	1.3006	0.0109
EUR/GBP	0.8947	0.0056

INT RATES	NZ	Australia
OCR/Cash	1.75%	1.50%
90 day bills	1.93%	2.01%
2 year swap	2.14%	2.10%
10 year Govt	2.84%	2.66%

Trump undermines the Fed

Donald Trump said overnight that *"I'm not thrilled"* and *"I am not happy"* about the Fed raising interest rates. Why — *"because we go up and every time you go up they want to raise rates again"* and Fed rate hikes went against *"all of the work that goes into doing what we're doing."* Trump conceded that *"at the same time I'm letting them do what they feel is best"* and that Fed Chair, Jerome Powell, is a *"very good man."*

The worrying aspect of these comments is they undermine the Fed's independence from political influence.

Trump also waded in on currencies, stating that Europe is *"making money easy, and their currency is falling"* and *"China, their currency is dropping like a rock. Our currency is going up. I have to tell you, it puts us at a disadvantage."*

The USD Index surged to a two year high before Trump's comments but then it gave back almost all of the day's gains.

Aussie jobs swell

Australian employment surged in June, adding 50,900 jobs and obliterating expectations for a gain of 17,000. Of the total, 41,200 were new full time positions.

The participation rate jumped from 65.5% to 65.7%. Despite the high number of people looking for work, the unemployment rate held steady at 5.4%, which shows how good the month's job numbers were.

Following soft employment numbers since January, only time will tell if June's stunning figures signal a continuing trend or were merely another statistical blip.

The AUD/USD rallied to 0.7420 on the unquestionably good jobs data. The NZD/USD lagged, being unable to rise above 0.6800.

Another USD surge overnight overturned the AUD's positivity. The AUD/USD and NZD/USD start the day on the soft side but with less negative tones thanks to the effects of Trump's comments.

S&P issues warning on Chinese bond market

S&P Global Ratings yesterday warned about a *"wall of maturities"* over the next year that *"could intensify refinancing and default risk in China's tightening credit markets"* because *"features unique to China's domestic debt markets multiply refinancing and default risk."*

It cited an increasing number of bonds with puts that allow investors to surrender the bond at predetermined intervals. It estimates that, in 2018, investors can surrender (put) bonds with an outstanding value of CNY1 trillion, an increase of 223% from 2017. In the first half of 2018, investors exercised a much higher proportion of bond puts than last year, amid widening spreads and rising default rates.

Adding to the risks are perpetual or hybrid bonds, of which there is an estimated CNY1.2 trillion outstanding. According to S&P Global Ratings, about RMB68 billion (6%) of perpetual bonds will effectively mature in 2018 but this jumps to RMB202 billion (17%) in 2019 and to RMB465 billion (39%) in 2020. Such bonds are usually converted to equity or cashed out at the first milestone date. Failure to do so amid widening spreads and rising default rates may signal weakened liquidity of borrowers and add further stress to market confidence.

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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	72.95					CAD	0.8944	0.9755
NZD/USD	0.6741	-0.0001	-0.0001	0.0003	0.0018	CHF	0.6738	0.7349
NZD/AUD	0.9169	-0.0001	-0.0001	-0.0001	0.0001	CNY	4.5666	4.9807
NZD/JPY	75.83	-0.16	-0.49	-1.01	-1.98	DKK	4.3169	4.7083
NZD/EUR	0.5793	-0.0014	-0.0040	-0.0081	-0.0158	FJD	1.4198	1.5486
NZD/GBP	0.5183	-0.0007	-0.0021	-0.0041	-0.0075	HKD	5.2909	5.7707
						KRW	765.64	835.08
AU TWI	63.30					MYR	2.7448	2.9937
AUD/USD	0.7352	0.0000	0.0000	0.0004	0.0019	NOK	5.5518	6.0552
AUD/NZD	1.0907	0.0001	0.0002	0.0001	-0.0001	SEK	6.0130	6.5583
AUD/JPY	82.70	-0.17	-0.53	-1.09	-2.16	SGD	0.9242	1.0080
AUD/EUR	0.6318	-0.0014	-0.0043	-0.0088	-0.0173	TWD	20.68	22.55
AUD/GBP	0.5653	-0.0007	-0.0022	-0.0044	-0.0082	ZAR	9.1515	9.9814
USD Index	95.22							
EUR/USD	1.1636	0.0026	0.0080	0.0171	0.0359	EQUITIES		
USD/JPY	112.50	-0.22	-0.72	-1.55	-3.22			Index
GBP/USD	1.3006	0.0017	0.0051	0.0109	0.0227	NZX50		8,918
EUR/GBP	0.8947	0.0008	0.0027	0.0056	0.0118	ASX200		6,263
						Dow Jones		25,065
						S&P 500		2,804
						FTSE100		7,684
						DAX 30		12,686
						Nikkei		22,765
						COMMODITIES		
								USD
						Dubai Light		69.77
						Brent Crude		72.53
						Gold		1,222.31
						Silver		15.32
						CRB Index		196.36

INTEREST RATES	New Zealand		Australia	
	Borrow	Invest	Borrow	Invest
30 day bank bills	1.85%	1.82%	1.94%	1.92%
90 day bank bills	1.96%	1.92%	2.01%	2.01%
FRA 90d in 3mths	2.01%	2.00%	2.06%	2.01%
FRA 180d in 6mths	2.07%	2.06%	2.22%	2.18%
1 year swap*	2.04%	2.00%	2.05%	2.03%
2 year swap*	2.15%	2.12%	2.11%	2.09%
3 year swap*	2.28%	2.25%	2.19%	2.18%
5 year swap*	2.55%	2.51%	2.51%	2.50%
10 year swap*	3.04%	3.01%	2.82%	2.82%
10 year Govt bond		2.83%		2.66%

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

SOURCE: Bloomberg

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