



MARKET ALERT

Tuesday 4 December 2018 | www.bancorptreasury.com

| CURRENCIES | Spot | 6mths |
|------------|--------|---------|
| NZD/USD | 0.6925 | 0.0023 |
| NZD/AUD | 0.9417 | -0.0001 |
| NZD/JPY | 78.70 | -1.00 |
| NZD/EUR | 0.6100 | -0.0080 |
| NZD/GBP | 0.5439 | -0.0034 |
| NZD/CNH | 4.7620 | 0.0327 |
| AUD/USD | 0.7354 | 0.0025 |
| AUD/EUR | 0.6479 | -0.0084 |
| EUR/USD | 1.1351 | 0.0189 |
| USD/CNH | 6.8771 | 0.0245 |
| GBP/USD | 1.2733 | 0.0123 |
| EUR/GBP | 0.8915 | 0.0061 |

| INT RATES | NZ | Australia |
|--------------|-------|-----------|
| OCR/Cash | 1.75% | 1.50% |
| 90 day bills | 1.97% | 1.98% |
| 2 year swap | 2.10% | 2.02% |
| 10 year Govt | 2.58% | 2.62% |

Risk pick'n'mix

Market reaction to the news of a cease fire in the US-China trade dispute and Donald Trump's tweet that China has agreed to cut tariffs on US cars was to selectively grab risk assets — notably commodity and emerging market currencies, stockmarkets, and industrial and soft commodities.

Oil prices also rose but that was because Russia said that it would join Saudi Arabia in cutting crude oil output, Alberta (Canada) announced that it will

cut production by almost 9.0% next year and Qatar announced that it will leave OPEC in January. Qatar's exit news had little impact because it is OPEC's 11th biggest oil producer and accounts for only 1.8% of OPEC's crude oil output.

The tariff cut on automobiles is significant because US automobile exports to China rank third in value behind aerospace and agriculture. US agriculture exports to China had already received a boost from the weekend's deal between Trump and Xi Jinping, which saw prices for soybean, wheat, corn and beef rise overnight.

US Treasury yields rose, mostly at the short end, because of positive expectations for the US economy from the weekend's trade developments, better than expected US PMI data and the rise in US stockmarkets and commodity prices.

However, Treasury yields' rises remain capped by Fed Chair Jerome Powell's comments last week that the Fed Funds rate is *"just below the broad range of estimates of the level that would be neutral for the economy."*

This significant change in the official rhetoric is still echoing around markets and suggests that Fed hiking expectations have been tempered. Key US labour market data (non-farm payrolls, unemployment and average hourly earnings) are due for release on Friday.

The higher Treasury yields are likely to give local swap rates another, albeit gentle, nudge higher today.

NZD ahead of the bunch

Again, the NZD was near the front of the pack of commodity and emerging market currencies benefiting from the selective grab for risk assets. The NZD/USD rose well above 0.6900 overnight and hit 0.6940 for the first time since June. Also, the NZD/AUD regained 0.9400, the NZD/EUR rose above 0.6100 for the first time since October last year, the NZD/JPY rose above 78.50 for the first time since April and the NZD/GBP hit 0.5450 for the first time since September last year. The TWI has lifted comfortably above 75.00, a significant spike from the 71.00 low of two months ago.

The overnight rise in US soft commodity prices, especially corn and beef, gives some hope that tonight's GDT auction might produce a rare rise in dairy prices.

Today's RBA meeting will provide a distraction that will only be more than fleeting if the RBA departs from its script, which is highly unlikely given recent Australian data.

BoE Governor, Mark Carney, is due to address the UK parliament on the Brexit agreement. Given his recent doom-saying on Brexit, his speech cannot be positive for the GBP.

**BANCORP**

BANCORP TREASURY SERVICES LIMITED

DAILY RATES

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| FX | Spot | FECs (mid) | | | | Spot Mid | |
|-----------|--------|------------|---------|---------|---------|--------------------|----------------|
| | Mid | 1mth | 3mths | 6mths | 12mths | NZD/... | AUD/... |
| NZ TWI | 75.43 | | | | | CAD | 0.9142 0.9708 |
| NZD/USD | 0.6925 | 0.0003 | 0.0010 | 0.0023 | 0.0050 | CHF | 0.6911 0.7339 |
| NZD/AUD | 0.9417 | -0.0001 | -0.0001 | -0.0001 | -0.0001 | CNY | 4.7666 5.0620 |
| NZD/JPY | 78.70 | -0.25 | -0.53 | -1.00 | -1.98 | DKK | 4.5522 4.8343 |
| NZD/EUR | 0.6100 | -0.0018 | -0.0041 | -0.0080 | -0.0158 | FJD | 1.4569 1.5472 |
| NZD/GBP | 0.5439 | -0.0010 | -0.0019 | -0.0034 | -0.0064 | HKD | 5.4115 5.7468 |
| | | | | | | KRW | 768.35 815.97 |
| AU TWI | 63.60 | | | | | MYR | 2.8866 3.0654 |
| AUD/USD | 0.7354 | 0.0005 | 0.0012 | 0.0025 | 0.0053 | NOK | 5.9138 6.2803 |
| AUD/NZD | 1.0620 | 0.0001 | 0.0002 | 0.0001 | 0.0001 | SEK | 6.2499 6.6371 |
| AUD/JPY | 83.58 | -0.25 | -0.55 | -1.05 | -2.09 | SGD | 0.9468 1.0054 |
| AUD/EUR | 0.6479 | -0.0019 | -0.0043 | -0.0084 | -0.0167 | TWD | 21.22 22.54 |
| AUD/GBP | 0.5775 | -0.0009 | -0.0019 | -0.0036 | -0.0068 | ZAR | 9.4868 10.0747 |
| USD Index | 96.97 | | | | | | |
| EUR/USD | 1.1351 | 0.0040 | 0.0094 | 0.0189 | 0.0385 | EQUITIES | |
| USD/JPY | 113.66 | -0.41 | -0.94 | -1.81 | -3.65 | | Index |
| GBP/USD | 1.2733 | 0.0029 | 0.0064 | 0.0123 | 0.0245 | NZX50 | 8,876 |
| EUR/GBP | 0.8915 | 0.0011 | 0.0029 | 0.0061 | 0.0129 | ASX200 | 5,771 |
| | | | | | | Dow Jones | 25,782 |
| | | | | | | S&P 500 | 2,787 |
| | | | | | | FTSE100 | 7,062 |
| | | | | | | DAX 30 | 11,465 |
| | | | | | | Nikkei | 22,575 |
| | | | | | | | |
| | | | | | | COMMODITIES | |
| | | | | | | | USD |
| | | | | | | Dubai Light | 60.20 |
| | | | | | | Brent Crude | 61.23 |
| | | | | | | Gold | 1,232.23 |
| | | | | | | Silver | 14.40 |
| | | | | | | CRB Index | 189.45 |

| INTEREST RATES | New Zealand | | Australia | |
|-------------------|-------------|--------|-----------|--------|
| | Borrow | Invest | Borrow | Invest |
| 30 day bank bills | 1.92% | 1.88% | 1.89% | 1.87% |
| 90 day bank bills | 1.99% | 1.95% | 1.98% | 1.98% |
| FRA 90d in 3mths | 1.98% | 1.94% | 1.95% | 1.90% |
| FRA 180d in 6mths | 2.05% | 2.02% | 2.13% | 2.09% |
| 1 year swap* | 2.02% | 1.98% | 1.95% | 1.94% |
| 2 year swap* | 2.11% | 2.08% | 2.02% | 2.01% |
| 3 year swap* | 2.23% | 2.16% | 2.11% | 2.09% |
| 5 year swap* | 2.48% | 2.44% | 2.44% | 2.43% |
| 10 year swap* | 2.93% | 2.89% | 2.76% | 2.76% |
| 10 year Govt bond | | 2.56% | | 2.62% |

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

SOURCE: Bloomberg

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