



MARKET ALERT

Thursday 7 February 2019 | www.bancorptreasury.com

CURRENCIES	Spot	6mths
NZD/USD	0.6831	0.0022
NZD/AUD	0.9606	0.0008
NZD/JPY	75.09	-0.87
NZD/EUR	0.6010	-0.0073
NZD/GBP	0.5279	-0.0030
NZD/CNH	4.6292	0.0132
AUD/USD	0.7111	0.0018
AUD/EUR	0.6257	-0.0081
EUR/USD	1.1365	0.0177
USD/CNH	6.7769	-0.0029
GBP/USD	1.2937	0.0118
EUR/GBP	0.8785	0.0057

INT RATES	NZ	Australia
OCR/Cash	1.75%	1.50%
90 day bills	1.92%	2.01%
2 year swap	1.92%	1.77%
10 year Govt	2.21%	2.18%

Spotlight on Australia

Australian retail sales fell 0.4% in December, worse than expected. The biggest losers were clothing, household goods, and department stores. December's fall in retail sales, and the retailers that suffered the most, were consistent with other countries that saw retail sales fall in December after a stunning rise in November when shoppers took advantage of Black Friday and other sales to pre-load for Christmas. However, the rise in retail sales over the December quarter was a meagre 0.1%.

Then the RBA stuck to its script at the first Board meeting for the year. It kept the cash rate at 1.50%, where it has been since August 2016, and concluded that *"further progress in reducing employment and having inflation return to target is expected."* However, the RBA noted that *"as is the case globally, some downside risks have increased"* and the inflation *"pick-up"* is likely *"to take a little longer than earlier expected."* Markets took little notice of those caveats and left the AUD and Australian interest rates unchanged, until a speech by the RBA Governor, Philip Lowe.

Lowe said *"there are scenarios where the next move in the cash rate is up and other scenarios where it is down"* but *"over the past year, the next-move-is-up scenarios were more likely than the next-move-is-down scenarios. Today, the probabilities appear to be more evenly balanced."* He also said that, given the uncertainties *"it is possible that the economy is softer than we expect,"* and in that case *"lower interest rates might be appropriate at some point."*

Lowe's comments were taken as downplaying the upside potential for the Australian economy and the cash rate in the foreseeable future, and placing the RBA as more balanced than previously considered, if that were possible.

After hearing Lowe's speech, markets took a glass 'half-empty' attitude to recent Australian data and pricing for the next RBA move. At close Monday, market pricing implied a 40% chance of

an RBA rate cut this year but that had increased to 84% at close yesterday.

Not surprisingly, Australian swap rates and the AUD fell yesterday. Swap rates fell by more than 10 bps. The AUD/USD fell by more than 100 points. The NZD/USD resisted until the NZD/AUD got above 0.9600. New Zealand swap rates should open lower today, having missed yesterday's action because of the Waitangi Day holiday.

Dairy prices up on lower volumes

The GDT Price Index rose 6.7% at the latest GDT auction overnight. The GDT Price Index has risen at each of the last five auctions with the latest the biggest.

The Whole Milk Powder price was 8.4% higher, above USD3,000/MT. Offsetting that good news was that volumes were 16% lower than in the previous auction and the GDT Price Index is still below where it was in June last year. Nevertheless, the GDT prices will cement Fonterra's forecast payout for this season.

The NZD received a boost from the GDT auction results but it was short lived and the NZD quickly moved back under the influence of global forces.

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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	74.21					CAD	0.9017 0.9387
NZD/USD	0.6831	0.0004	0.0012	0.0022	0.0044	CHF	0.6845 0.7126
NZD/AUD	0.9606	0.0002	0.0005	0.0008	0.0006	CNY	4.6070 4.7962
NZD/JPY	75.09	-0.12	-0.42	-0.87	-1.83	DKK	4.4861 4.6703
NZD/EUR	0.6010	-0.0010	-0.0035	-0.0073	-0.0150	FJD	1.4441 1.5035
NZD/GBP	0.5279	-0.0004	-0.0015	-0.0030	-0.0060	HKD	5.3596 5.5797
						KRW	765.91 797.37
AU TWI	60.90					MYR	2.8029 2.9180
AUD/USD	0.7111	0.0003	0.0009	0.0018	0.0041	NOK	5.8324 6.0719
AUD/NZD	1.0411	-0.0002	-0.0006	-0.0008	-0.0007	SEK	6.2789 6.5368
AUD/JPY	78.19	-0.14	-0.48	-0.97	-1.95	SGD	0.9260 0.9640
AUD/EUR	0.6257	-0.0012	-0.0040	-0.0081	-0.0160	TWD	21.04 21.90
AUD/GBP	0.5497	-0.0006	-0.0018	-0.0036	-0.0066	ZAR	9.2733 9.6542
USD Index	96.36						
EUR/USD	1.1365	0.0027	0.0087	0.0177	0.0365	EQUITIES	
USD/JPY	109.96	-0.24	-0.81	-1.63	-3.36		Index
GBP/USD	1.2937	0.0018	0.0059	0.0118	0.0233	NZX50	9,074
EUR/GBP	0.8785	0.0008	0.0027	0.0057	0.0121	ASX200	6,026
						Dow Jones	25,386
						S&P 500	2,734
						FTSE100	7,173
						DAX 30	11,325
						Nikkei	20,874
						COMMODITIES	
							USD
						Dubai Light	62.94
						Brent Crude	62.60
						Gold	1,309.42
						Silver	15.68
						CRB Index	187.66

INTEREST RATES	New Zealand		Australia	
	Borrow	Invest	Borrow	Invest
30 day bank bills	1.87%	1.83%	2.01%	1.99%
90 day bank bills	1.94%	1.90%	2.02%	2.00%
FRA 90d in 3mths	1.90%	1.89%	1.91%	1.86%
FRA 180d in 6mths	1.90%	1.87%	1.94%	1.90%
1 year swap*	1.92%	1.89%	1.88%	1.87%
2 year swap*	1.93%	1.90%	1.77%	1.76%
3 year swap*	1.97%	1.94%	1.76%	1.75%
5 year swap*	2.12%	2.09%	2.02%	2.01%
10 year swap*	2.54%	2.51%	2.38%	2.38%
10 year Govt bond		2.20%		2.18%

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

SOURCE: Bloomberg

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