



MARKET ALERT

Thursday 8 February 2018 | www.bancorptreasury.com

CURRENCIES	Spot	6 mths
NZD/USD	0.7254	-0.0007
NZD/AUD	0.9273	-0.0012
NZD/JPY	79.29	-1.00
NZD/EUR	0.5918	-0.0081
NZD/GBP	0.5233	-0.0044
NZD/CNH	4.5834	0.0418
AUD/USD	0.7823	0.0002
AUD/EUR	0.6382	-0.0079
EUR/USD	1.2257	0.0157
USD/CNH	6.3182	0.0640
GBP/USD	1.3864	0.0104
EUR/GBP	0.8841	0.0047

INT RATES	NZ	Australia
OCR/Cash	1.75%	1.50%
90 day bills	1.92%	1.77%
2 year swap	2.18%	2.03%
10 year Govt	2.95%	2.84%

New Zealand unemployment nine year low

New Zealand’s unemployment rate fell to 4.5% in the December quarter, down from 4.6% in September. The unemployment rate has not been this low since December 2008.

Although unemployment has fallen, the under-utilisation rate rose to 12.1%, indicating that there are people who are employed but may be looking for more hours.

The labour force participation rate came in at 71.0%, down slightly from the

previous quarter’s peak of 71.1% but still the highest in the developed world.

The labour cost index, which is the overall measure of changes in salary and wage rates, rose a combined 1.8%. Of this, the government sector grew 1.5%, with the private sector higher at 1.9%. A large part of the wage increase was due to the pay equity settlement for care workers, which was passed into law last year. Had this law not come into effect, a 1.6% gain would have been observed. The NZD/USD rose on the news during the day and is just another New Zealand positive that continues to keep some support under the NZD.

US returning to sort of normal

US sharemarkets, Treasury yields and the USD have enjoyed another day of going up which is a relief after their dramatic falls at the end of last week and start of this week.

Helping their respective rebounds has been the US economic positives that underscore the Fed’s predictions for more rate rises in 2018 and 2019. That was underscored by news that, not only had the House of Representatives passed a bill extending government funding beyond Friday’s deadline (to 23 March), but there has also been a bipartisan agreement in the Senate for a two year budget package. However, let’s not get carried away in celebrating the Senate deal — Congress and the

White House have been bordering on dysfunctional and split over party lines over the past year or so.

The USD Index has continued to climb off its multi-year lows recorded late last month as the USD enjoyed a broad recovery that has pushed down commodity prices. The stronger USD and lower commodity prices have given the NZD and AUD an extra shove lower, taking the NZD/USD to 0.7250 and the AUD/USD just above 0.7800 and wiping out most of their respective New Year rallies.

The 10 year Treasury yields is back up to 2.84% where it closed Friday after the unexpectedly strong jobs and wages data. That will put some upward pressure on our medium to longer term swap rates. The short end of the New Zealand yield curve looks set to remain anchored to and OCR at 1.75%.

Today’s MPS will reveal how long the RBNZ expects the OCR to remain at 1.75%. We don’t expect much variation from the forecasts in the November MPS because recent data has shown stronger growth and, if anything, weaker price and wage inflation than the RBNZ’s forecasts, because there will be a change in the Policy Targets Agreement and Governor next month. Any shift further into the future for the RBNZ’s OCR forecasts could push the NZD lower, especially in the current fragile and volatile global market environment.

