



BANCORP

BANCORP TREASURY SERVICES LIMITED

MARKET ALERT

Friday 8 February 2019 | www.bancorptreasury.com

CURRENCIES	Spot	6mths
NZD/USD	0.6759	0.0024
NZD/AUD	0.9520	0.0010
NZD/JPY	74.23	-0.85
NZD/EUR	0.5953	-0.0071
NZD/GBP	0.5215	-0.0029
NZD/CNH	4.5850	0.0141
AUD/USD	0.7100	0.0018
AUD/EUR	0.6253	-0.0081
EUR/USD	1.1353	0.0178
USD/CNH	6.7840	-0.0031
GBP/USD	1.2961	0.0119
EUR/GBP	0.8760	0.0056
INT RATES	NZ	Australia
OCR/Cash	1.75%	1.50%
90 day bills	1.92%	2.02%
2 year swap	1.82%	1.76%
10 year Govt	2.14%	2.15%

Ouch!

New Zealand's unemployment rate jumped in the December quarter to 4.3%, from 4.0% in September (revised up from 3.9%). Markets had expected a bounce after September's fall but not to this extent. The participation rate falling from 71.0% in September to 70.9% in December, and a 0.1% rise in employment over the December quarter, down from 1.0% in September, made the news worse.

Salary and ordinary time wages rose 0.5% in the December quarter, the

same as in September, to be up 1.9% over the December year, from 1.8% in September. The detail revealed that underlying wage inflation is rising slowly. However, the jump in the unemployment rate is likely to slow, or even halt, any wage inflation, making it even less of a threat to the RBNZ than previously thought. Market pricing now implies more than an 80% chance of an OCR cut this year, from around 50% the day before.

The markets' response was savage. The NZD instantly fell across the board, with the NZD/USD down 50 points to 0.6775. The other cross-rates fell much the same, except for the NZD/AUD, which was already starved of oxygen around 0.9600 and fell 70 points to 0.9525. As the day progressed, the NZD drifted lower, showing no signs of a rebound.

Local interest rates also fell dramatically. Swap rates out to 7 years fell to record lows. Swap rates out to 4 years ended the day below the 3 month BKBM FRA rate. The 5 year swap rate fell below 2.00% for the first time ever and held that to the end of the day.

In the context of the past two days' Australian market responses to a more dovish than expected RBA, the New Zealand markets' response yesterday was understandable although the degree was not warranted in our view. Next week's MPS has become more challenging for the RBNZ.

More UK bad news

The BoE's Monetary Policy Committee voted overnight unanimously to keep the Bank Rate at 0.75% and to maintain its bond portfolio at GBP445 billion but noted that *"UK economic growth slowed in late 2018 and appears to have weakened further in early 2019. This slowdown mainly reflects softer activity abroad and the greater effects from Brexit uncertainties at home."*

In the accompanying February *Inflation Report*, the BoE lowered its growth forecast for this year from 1.7% to 1.2%, its lowest in a decade, and for next year from 1.7% to 1.5%. Nevertheless, the BoE still projects *"an ongoing tightening of monetary policy over the forecast period, at a gradual pace and to a limited extent."*

At the post-meeting press conference, BoE Governor, Mark Carney, warned that the probability of a 'No Deal' Brexit and the risk of a recession in the UK have gone up.

The GBP weakened after the BoE's and Carney's statements but rebounded on news that the EU has agreed to renegotiate the Brexit deal with the UK. However, the EU rejected the UK's request to reopen the legally binding withdrawal agreement. Brexit still has to travel a long and winding road.

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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	73.45					CAD 0.8987	0.9440
NZD/USD	0.6759	0.0004	0.0012	0.0024	0.0047	CHF 0.6768	0.7109
NZD/AUD	0.9520	0.0002	0.0005	0.0010	0.0012	CNY 4.5585	4.7883
NZD/JPY	74.23	-0.11	-0.41	-0.85	-1.75	DKK 4.4429	4.6669
NZD/EUR	0.5953	-0.0010	-0.0035	-0.0071	-0.0143	FJD 1.4391	1.5117
NZD/GBP	0.5215	-0.0004	-0.0015	-0.0029	-0.0057	HKD 5.3037	5.5711
						KRW 760.08	798.40
AU TWI	60.60					MYR 2.7512	2.8899
AUD/USD	0.7100	0.0003	0.0009	0.0018	0.0040	NOK 5.8001	6.0925
AUD/NZD	1.0504	-0.0002	-0.0006	-0.0011	-0.0013	SEK 6.2455	6.5604
AUD/JPY	77.98	-0.14	-0.48	-0.97	-1.93	SGD 0.9165	0.9627
AUD/EUR	0.6253	-0.0012	-0.0041	-0.0081	-0.0158	TWD 20.83	21.88
AUD/GBP	0.5478	-0.0005	-0.0019	-0.0036	-0.0067	ZAR 9.1822	9.6452
USD Index	96.46						
EUR/USD	1.1353	0.0026	0.0089	0.0178	0.0360	EQUITIES	
USD/JPY	109.84	-0.24	-0.81	-1.63	-3.32		Index
GBP/USD	1.2961	0.0018	0.0060	0.0119	0.0234	NZX50	9,134
EUR/GBP	0.8760	0.0008	0.0027	0.0056	0.0118	ASX200	6,092
						Dow Jones	25,093
						S&P 500	2,698
						FTSE100	7,094
						DAX 30	11,022
						Nikkei	20,751
						COMMODITIES	
							USD
						Dubai Light	62.46
						Brent Crude	61.27
						Gold	1,310.66
						Silver	15.72
						CRB Index	184.55

INTEREST RATES	New Zealand		Australia	
	Borrow	Invest	Borrow	Invest
30 day bank bills	1.87%	1.83%	2.02%	2.00%
90 day bank bills	1.94%	1.90%	2.02%	2.00%
FRA 90d in 3mths	1.86%	1.83%	1.90%	1.85%
FRA 180d in 6mths	1.82%	1.80%	1.92%	1.88%
1 year swap*	1.86%	1.83%	1.86%	1.85%
2 year swap*	1.83%	1.80%	1.77%	1.75%
3 year swap*	1.86%	1.83%	1.75%	1.75%
5 year swap*	2.00%	1.97%	2.00%	1.99%
10 year swap*	2.45%	2.42%	2.35%	2.34%
10 year Govt bond		2.13%		2.15%

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

SOURCE: Bloomberg

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