



# MARKET ALERT

Thursday 8 November 2018 | [www.bancorptreasury.com](http://www.bancorptreasury.com)

CURRENCIES	Spot	6mths
NZD/USD	0.6790	0.0019
NZD/AUD	0.9327	0.0000
NZD/JPY	76.95	-0.99
NZD/EUR	0.5929	-0.0080
NZD/GBP	0.5167	-0.0033
NZD/CNH	4.6957	0.0296
AUD/USD	0.7280	0.0021
AUD/EUR	0.6357	-0.0086
EUR/USD	1.1452	0.0190
USD/CNH	6.9163	0.0237
GBP/USD	1.3139	0.0123
EUR/GBP	0.8716	0.0063

  

INT RATES	NZ	Australia
OCR/Cash	1.75%	1.50%
90 day bills	1.97%	1.94%
2 year swap	2.14%	2.09%
10 year Govt	2.74%	2.73%

## Two years of US political gridlock

It looks like the Democrats have control of the House of Representatives and the Republicans have control of the Senate.

Except for a few differences, the make up of Congress for the next two years will be as opinion polls predicted and markets expected.

Consequently, US stockmarkets rose, Treasury yields fell and market volatility diminished, all by a little. The USD weakened fractionally.

## Stellar labour market data

Market expectations for an OCR cut evaporated and the NZD and local interest rates jumped yesterday after surprisingly stellar labour market data. There was no bad news in the data, only good to stellar news that contradicted prevailing (very) low business confidence.

The good news was that employment rose 0.5% over the September quarter and 1.9% over the year, the Labour Cost Index rose 0.5% over the September quarter and 1.8% over the year, and average ordinary time hourly earnings rose 2.9% in the September year. All in line with expectations.

The rest of the data was even better. The employment rate at the end of September was 68.3%, its highest level since the data series began more than 30 years ago. The unemployment rate dropped from 4.4% at the end of June to 3.9% in September, its lowest level since June 2008. A lift in the participation rate from 70.9% in June to 71.1% in September makes the fall in the unemployment rate even more impressive.

The labour market data generated an instant NZD rise, which saw the NZD/USD up 60 points to above 0.6740, the NZD/AUD above 0.9300 for the first time since late June, the NZD/JPY above 76.50 for the first time since mid July, the NZD/EUR to 0.5900 for the first

time since late June. The NZD/GBP's rise was more muted because of recent GBP strength following better hopes for a Brexit deal.

The NZD/USD rose again on a weaker USD overnight, rising to start today just below 0.6800, and the other NZD cross-rates continued yesterday's advance.

The market odds of an OCR cut some time in the next year all but evaporated, which lifted local swap rates by 8bps to 10bps across the curve yesterday.

## The RBNZ's dilemma

Yesterday's labour market data added to the RBNZ's dilemma ahead of today's MPS release. Growth, inflation and employment data over the past three months have been much stronger than the RBNZ forecasted in the August MPS, making it difficult for the RBNZ to credibly claim that "*the direction of our next OCR move could be up or down.*"

Adding to that dilemma, the RBNZ's own survey of inflation expectations, released yesterday, reported a rise in expectations one year ahead, from 1.86% to 2.09% (assumedly reflecting higher petrol prices) but a (slight) fall in expectations two years ahead, from 2.04% to 2.03%. The last time the expected inflation one year ahead was higher than expected inflation two years ahead was in the September 2011 quarter.

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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	74.08					<b>CAD</b>	0.8898 0.9540
NZD/USD	0.6790	0.0003	0.0009	0.0019	0.0046	<b>CHF</b>	0.6793 0.7283
NZD/AUD	0.9327	0.0000	0.0000	0.0000	-0.0001	<b>CNY</b>	4.6980 5.0370
NZD/JPY	76.95	-0.14	-0.53	-0.99	-2.01	<b>DKK</b>	4.4227 4.7418
NZD/EUR	0.5929	-0.0012	-0.0044	-0.0080	-0.0161	<b>FJD</b>	1.4490 1.5536
NZD/GBP	0.5167	-0.0005	-0.0019	-0.0033	-0.0063	<b>HKD</b>	5.3159 5.6995
						<b>KRW</b>	758.03 812.72
AU TWI	62.80					<b>MYR</b>	2.8246 3.0284
AUD/USD	0.7280	0.0003	0.0009	0.0021	0.0051	<b>NOK</b>	5.6583 6.0665
AUD/NZD	1.0722	0.0000	0.0000	0.0000	0.0001	<b>SEK</b>	6.1135 6.5546
AUD/JPY	82.52	-0.15	-0.57	-1.06	-2.14	<b>SGD</b>	0.9303 0.9974
AUD/EUR	0.6357	-0.0013	-0.0047	-0.0086	-0.0172	<b>TWD</b>	20.77 22.26
AUD/GBP	0.5541	-0.0005	-0.0020	-0.0036	-0.0067	<b>ZAR</b>	9.4359 10.1167
USD Index	96.06						
EUR/USD	1.1452	0.0027	0.0100	0.0190	0.0400	<b>EQUITIES</b>	
USD/JPY	113.37	-0.25	-0.93	-1.78	-3.71		<b>Index</b>
GBP/USD	1.3139	0.0017	0.0066	0.0123	0.0254	<b>NZX50</b>	8,855
EUR/GBP	0.8716	0.0009	0.0032	0.0063	0.0134	<b>ASX200</b>	5,897
						<b>Dow Jones</b>	26,013
						<b>S&amp;P 500</b>	2,795
						<b>FTSE100</b>	7,117
						<b>DAX 30</b>	11,579
						<b>Nikkei</b>	22,086
						<b>COMMODITIES</b>	
							<b>USD</b>
						<b>Dubai Light</b>	70.94
						<b>Brent Crude</b>	71.95
						<b>Gold</b>	1,227.55
						<b>Silver</b>	14.59
						<b>CRB Index</b>	197.56

  

INTEREST RATES	New Zealand		Australia	
	Borrow	Invest	Borrow	Invest
30 day bank bills	1.90%	1.86%	1.88%	1.86%
90 day bank bills	1.99%	1.95%	1.94%	1.94%
FRA 90d in 3mths	2.01%	2.00%	1.99%	1.94%
FRA 180d in 6mths	2.08%	2.05%	2.17%	2.13%
1 year swap*	2.04%	2.03%	1.99%	1.98%
2 year swap*	2.15%	2.13%	2.09%	2.08%
3 year swap*	2.28%	2.26%	2.21%	2.19%
5 year swap*	2.55%	2.53%	2.55%	2.54%
10 year swap*	3.05%	3.02%	2.91%	2.91%
10 year Govt bond		2.73%		2.73%

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

SOURCE: Bloomberg

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