



MARKET ALERT

Friday 9 November 2018 | www.bancorptreasury.com

CURRENCIES	Spot	6mths
NZD/USD	0.6768	0.0020
NZD/AUD	0.9302	0.0001
NZD/JPY	77.12	-1.00
NZD/EUR	0.5948	-0.0081
NZD/GBP	0.5175	-0.0033
NZD/CNH	4.6928	0.0286
AUD/USD	0.7276	0.0021
AUD/EUR	0.6394	-0.0087
EUR/USD	1.1379	0.0190
USD/CNH	6.9347	0.0220
GBP/USD	1.3078	0.0123
EUR/GBP	0.8701	0.0063

INT RATES	NZ	Australia
OCR/Cash	1.75%	1.50%
90 day bills	1.98%	1.94%
2 year swap	2.19%	2.12%
10 year Govt	2.78%	2.76%

RBNZ — balanced and data dependent

The RBNZ's November MPS was more upbeat about domestic economic growth, employment and inflation than the August MPS but projected a balanced view of New Zealand's recent solid economic performance, tight labour market and rising inflation.

And its assessment did not encompass the stellar September quarter labour market data released the day before. The RBNZ will look through the first round effects of higher petrol prices but will be on alert for any second or third round effects.

The RBNZ removed the previous warning that *"the direction of our next OCR move could be up or down."* Rather, it noted that *"there are both upside and downside risks to our growth and inflation projections"* and that *"any future OCR move remains data dependent."* It seemed to prefer markets to focus on drivers for future OCR decisions rather than the forecasted track for the OCR.

Despite the more upbeat tone, the RBNZ retained its August MPS forecasts implying an OCR at 1.75% until late in 2020. Not surprisingly, market pricing now implies a negligible chance of an OCR change in the next nine months. The more balanced view was responsible for a lift in swap rates, although yesterday's rise was less than the spectacular jump the day before after the labour market data. From 2.30% at the end of October, the 5 year swap rate is now sitting at 2.65%.

The NZD was virtually unmoved by the MPS. With a steady USD taking a breath between the midterm elections and the FOMC meeting, the NZD/USD has held on to its recent gains except against the AUD, which is playing catch-up with the NZD.

Fed treads water

As expected, the FOMC meeting yesterday voted unanimously to do nothing now. The Fed sees *"that the labour market has continued to strengthen and that economic activity has been rising at a strong rate"* and *"both overall*

inflation and inflation for items other than food and energy remain near 2 percent." It also considers that the *"risks to the economic outlook appear roughly balanced."* Consequently, *"the Committee expects that further gradual increases in the target range for the federal funds rate will be consistent with sustained expansion of economic activity, strong labour market conditions, and inflation."*

There was no observable market reaction but a December hike remains 80% priced in by markets.

More pressure on Australian banks

APRA, the Australian banking sector regulator, has proposed additional capital requirements for the big four Australian banks, specifically *"increasing Total Capital requirements by four to five percentage points of risk-weighted assets."* To soften the blow, the additional capital requirements will not take place until 2023 and the banks *"will be able to use any form of capital to meet increased Total Capital requirements"* and it *"anticipates the bulk of additional capital raised will be in the form of Tier 2 capital,"* which is dominated by hybrid or convertible bonds.

APRA estimates that *"the proposed changes are expected to marginally increase each major bank's cost of funding — incrementally over four years — by up to five basis points."* The Australian banks are already battling increased regulation, profitability pressure and rising unpopularity.

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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	74.04					CAD	0.8874 0.9539
NZD/USD	0.6768	0.0003	0.0009	0.0020	0.0048	CHF	0.6804 0.7315
NZD/AUD	0.9302	0.0001	0.0001	0.0001	0.0002	CNY	4.6946 5.0468
NZD/JPY	77.12	-0.13	-0.53	-1.00	-1.98	DKK	4.4360 4.7689
NZD/EUR	0.5948	-0.0011	-0.0043	-0.0081	-0.0160	FJD	1.4348 1.5424
NZD/GBP	0.5175	-0.0005	-0.0019	-0.0033	-0.0061	HKD	5.2965 5.6939
						KRW	757.76 814.62
AU TWI	63.00					MYR	2.8217 3.0334
AUD/USD	0.7276	0.0003	0.0009	0.0021	0.0051	NOK	5.6623 6.0871
AUD/NZD	1.0750	-0.0001	-0.0001	-0.0001	-0.0002	SEK	6.0969 6.5544
AUD/JPY	82.91	-0.15	-0.58	-1.08	-2.15	SGD	0.9297 0.9994
AUD/EUR	0.6394	-0.0013	-0.0047	-0.0087	-0.0173	TWD	20.77 22.33
AUD/GBP	0.5563	-0.0005	-0.0020	-0.0036	-0.0067	ZAR	9.5505 10.2671
USD Index	96.32						
EUR/USD	1.1379	0.0026	0.0098	0.0190	0.0397	EQUITIES	
USD/JPY	113.96	-0.24	-0.93	-1.80	-3.72		Index
GBP/USD	1.3078	0.0017	0.0065	0.0123	0.0251	NZX50	8,896
EUR/GBP	0.8701	0.0009	0.0032	0.0063	0.0134	ASX200	5,928
						Dow Jones	26,228
						S&P 500	2,807
						FTSE100	7,141
						DAX 30	11,527
						Nikkei	22,487
						COMMODITIES	
							USD
						Dubai Light	71.28
						Brent Crude	71.13
						Gold	1,224.39
						Silver	14.45
						CRB Index	196.32

INTEREST RATES	New Zealand		Australia	
	Borrow	Invest	Borrow	Invest
30 day bank bills	1.91%	1.87%	1.88%	1.86%
90 day bank bills	2.00%	1.96%	1.94%	1.94%
FRA 90d in 3mths	2.02%	1.97%	1.99%	1.94%
FRA 180d in 6mths	2.11%	2.08%	2.18%	2.14%
1 year swap*	2.06%	2.04%	2.00%	1.99%
2 year swap*	2.20%	2.18%	2.12%	2.11%
3 year swap*	2.37%	2.33%	2.24%	2.23%
5 year swap*	2.64%	2.62%	2.60%	2.59%
10 year swap*	3.12%	3.10%	2.96%	2.96%
10 year Govt bond		2.77%		2.76%

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

SOURCE: Bloomberg

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