



BANCORP

BANCORP TREASURY SERVICES LIMITED

MARKET ALERT

Thursday 10 October 2019 | www.bancorptreasury.com

CURRENCIES	Spot	6mths
NZD/USD	0.6292	0.0024
NZD/AUD	0.9354	-0.0009
NZD/JPY	67.63	-0.56
NZD/EUR	0.5733	-0.0050
NZD/GBP	0.5153	-0.0012
NZD/CNH	4.4905	0.0326
AUD/USD	0.6727	0.0032
AUD/EUR	0.6129	-0.0048
EUR/USD	1.0975	0.0139
USD/CNH	7.1370	0.0244
GBP/USD	1.2210	0.0075
EUR/GBP	0.8989	0.0058

INT RATES	NZ	Australia
OCR/Cash	1.00%	0.75%
90 day bills	1.04%	0.84%
2 year swap	0.83%	0.64%
10 year Govt	1.01%	0.88%

Fed's worries revealed

The minutes of the FOMC meeting on 18 September showed a consensus that the downside risks to the US economy had increased due to trade uncertainty, weaker global growth (and the prospects for growth) and geopolitical risks.

That consensus not only justified the rate cut at that meeting but also reinforced the areas of the US and global economies on which markets were focused.

Nothing was specifically identified about the trade uncertainty, but everyone knows that means the US/China trade

war and FOMC members do not want to name the culprit. Unlike Donald Trump who continues to blame the slowing US economy on the Fed's reluctance to dramatically lower US interest rates.

The minutes also identified what the Fed is watching out for — signs of labour market softness, indications of whether recent inflation softness is transitory or more embedded in the economy, and, trends in business investment, trade and consumer spending. The minutes also reminded markets that monetary policy worked with a lag, specifically that last month's Fed Funds rate cut was intended to, "support economic activity over coming quarters." Again, all this reinforced financial markets' focus and provided subtle forward guidance.

There was also some discussion on the implications of the negative US yield curve. The Fed's measure is the gap between the 3 month and 10 year Treasuries that has been negative since May. Many are worried about the consequences of a prolonged yield curve inversion.

The meeting minutes and brief comments from Fed Chair, Jerome Powell, had no impact on the USD and Treasury yields overnight, as there was nothing new for markets and there was again no significant data or developments on key market worries. Treasury yields edged up ahead of treasury auctions and on hopes of progress when US/China trade talks resume today.

Australian consumer confidence falls

The Westpac-Melbourne Institute consumer confidence survey reported a sharp drop in its headline confidence index from 98.2 in September to 92.8 in October. The confidence index fell in October to its lowest since July 2015 despite the stimulus from three RBA's rate cuts over recent months, with the most recent just before the survey was undertaken.

As Westpac noted, "typically, an interest rate cut boosts confidence particularly around consumers' expectations for and assessments of their own finances" but these measures fell. The inference drawn was that Australian consumers are worried about what is behind the RBA rate cuts rather than the stimulus from those cuts. That reaction is identical to what happened in New Zealand after the RBNZ's surprise 50 bps OCR cut in August. Markets, businesses and consumers all asked what does the RBNZ know to make it react so strongly that we do not?

The sharp drop in Australian consumer confidence cemented market pricing for a 0.50% RBA cash rate in February and caused the AUD and Australian swap rates to fall.

The weaker AUD pulled down the NZD/USD. Again, the NZD/USD found support below 0.6300 and the NZD/AUD saw little reason to stray far from 0.9350.

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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	70.49					CAD 0.8387	0.8966
NZD/USD	0.6292	0.0005	0.0013	0.0024	0.0040	CHF 0.6264	0.6697
NZD/AUD	0.9354	-0.0002	-0.0005	-0.0009	-0.0018	CNY 4.4877	4.7979
NZD/JPY	67.63	-0.09	-0.30	-0.56	-1.06	DKK 4.2822	4.5781
NZD/EUR	0.5733	-0.0009	-0.0028	-0.0050	-0.0096	FJD 1.3859	1.4817
NZD/GBP	0.5153	-0.0002	-0.0008	-0.0012	-0.0022	HKD 4.9362	5.2773
						KRW 753.80	805.90
AU TWI	59.00					MYR 2.6504	2.8335
AUD/USD	0.6727	0.0006	0.0018	0.0032	0.0056	NOK 5.7687	6.1674
AUD/NZD	1.0691	0.0003	0.0006	0.0010	0.0021	SEK 6.2618	6.6946
AUD/JPY	72.32	-0.08	-0.28	-0.53	-1.00	SGD 0.8686	0.9286
AUD/EUR	0.6129	-0.0008	-0.0026	-0.0048	-0.0091	TWD 19.35	20.69
AUD/GBP	0.5509	-0.0001	-0.0005	-0.0007	-0.0013	ZAR 9.5430	10.2025
USD Index	99.12						
EUR/USD	1.0975	0.0025	0.0076	0.0139	0.0259	EQUITIES	
USD/JPY	107.52	-0.22	-0.70	-1.29	-2.36		Index
GBP/USD	1.2210	0.0014	0.0044	0.0075	0.0130	NZX50	10,941
EUR/GBP	0.8989	0.0010	0.0030	0.0058	0.0115	ASX200	6,547
						Dow Jones	26,405
						S&P 500	2,924
						FTSE100	7,167
						DAX 30	12,094
						Nikkei	21,456
						COMMODITIES	
							USD
						Dubai Light	58.02
						Brent Crude	58.50
						Gold	1,508.08
						Silver	17.76
						CRB Index	182.51

INTEREST RATES	New Zealand		Australia	
	Borrow	Invest	Borrow	Invest
30 day bank bills	1.21%	1.17%	0.91%	0.89%
90 day bank bills	1.06%	1.02%	0.86%	0.82%
FRA 90d in 3mths	0.94%	0.91%	0.76%	0.71%
FRA 180d in 6mths	0.85%	0.79%	0.68%	0.64%
1 year swap*	0.92%	0.88%	0.69%	0.67%
2 year swap*	0.85%	0.82%	0.65%	0.63%
3 year swap*	0.83%	0.80%	0.64%	0.63%
5 year swap*	0.87%	0.84%	0.78%	0.76%
10 year swap*	1.14%	1.11%	1.06%	1.04%
10 year Govt bond		1.00%		0.88%

* Semi-annual rate resets except AUD 1,2,3 year quarterly

SOURCE: Bloomberg

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