



# MARKET ALERT

Thursday 28 November 2019 | www.bancorptreasury.com

| CURRENCIES | Spot   | 6mths   |
|------------|--------|---------|
| NZD/USD    | 0.6425 | 0.0017  |
| NZD/AUD    | 0.9475 | -0.0017 |
| NZD/JPY    | 70.32  | -0.60   |
| NZD/EUR    | 0.5838 | -0.0053 |
| NZD/GBP    | 0.4975 | -0.0014 |
| NZD/CNH    | 4.5089 | 0.0337  |
| AUD/USD    | 0.6781 | 0.0031  |
| AUD/EUR    | 0.6162 | -0.0045 |
| EUR/USD    | 1.1004 | 0.0131  |
| USD/CNH    | 7.0182 | 0.0334  |
| GBP/USD    | 1.2913 | 0.0071  |
| EUR/GBP    | 0.8522 | 0.0054  |

| INT RATES    | NZ    | Australia |
|--------------|-------|-----------|
| OCR/Cash     | 1.00% | 0.75%     |
| 90 day bills | 1.23% | 0.89%     |
| 2 year swap  | 1.13% | 0.72%     |
| 10 year Govt | 1.30% | 1.02%     |

## Risk on

Solid US data lifted markets’ optimism overnight generating a risk on tone that pushed up Treasury yields, the USD, and US equities.

The stronger USD capped the NZD/USD’s recent rally although the AUD was again hit worse, resulting in the NZD/AUD rising to 0.9486 before easing. The higher Treasury yields should feed through to local swap rates this morning.

Further positive developments in the US/China Trade talks could push the NZD/USD through 0.6450, a key technical level that if broken, could result

in speculators unwinding short positions and pushing the NZD/USD into an uptrend.

All eyes are on the release of the ANZ Business Outlook survey this morning which has the potential to edge the NZD higher if firms’ own activity outlook rebounds strongly.

## US still going strong

US GDP for the September quarter has been revised up from 1.9% (annualised) to 2.1%. US durable goods orders unexpectedly rebounded in October, rising 0.6% after falling 1.4% in September. Similarly, durable goods orders, excluding defence and transport (a proxy for business investment) unexpectedly rebounded 1.2% in October after falling 0.5% in September.

Household incomes were flat in October but household spending rose by 0.3%. However, markets were expecting a 0.3% rise in households’ income, so the flat outcome was disappointing. Furthermore, the rise in household spending was almost entirely due to higher energy costs while households cut back on other purchases, notably big ticket items.

The data played into the hands of the Fed who recently shifted to an optimistic wait and see stance. That shift was confirmed by the Fed’s Beige Book survey that concluded that the US economy expanded “moderately” in recent weeks and respondents’ outlooks “generally remained positive.”

## Financial system resilient but RBNZ about to act

The RBNZ’s six monthly *Financial Stability Report* (“FSR”) opened up with “the financial system as a whole remains resilient to a broad range of economic risks.” Although it is worried about the financial system’s vulnerabilities to international risks that “have increased in the past six months” and to “prolonged low interest rates [that] could exacerbate pre-existing debt and asset imbalances in the economy.” To combat those, the RBNZ “has a number of regulatory and supervisory initiatives underway to enhance the long-term resilience and performance of the financial system.”

Market and bank focus was on the RBNZ’s LVR restrictions, which were left unchanged because of “the uncertainty around the future trend in housing lending risk.” The RBNZ also repeated its worries about the agricultural sector, noting that “a significant share of the dairy sector remains financially vulnerable.”

The RBNZ sees that “the banking sector maintains buffers of capital and liquidity over current requirements and has strong profitability. However, some parts of the life insurance and credit union sectors have less resilience and are facing current challenges.”

Given that the RBNZ is expected to announce increased capital requirements for banks on 5 December, what plans does it have for “the life insurance and credit union sectors”?

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BANCORP TREASURY SERVICES LIMITED

# DAILY RATES

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| FX                    | Spot   | FECs (mid)         |               |                  |               | Spot Mid           |              |
|-----------------------|--------|--------------------|---------------|------------------|---------------|--------------------|--------------|
|                       | Mid    | 1mth               | 3mths         | 6mths            | 12mths        | NZD/...            | AUD/...      |
| NZ TWI                | 71.41  |                    |               |                  |               | <b>CAD</b> 0.8533  | 0.9005       |
| NZD/USD               | 0.6425 | 0.0003             | 0.0009        | 0.0017           | 0.0030        | <b>CHF</b> 0.6419  | 0.6775       |
| NZD/AUD               | 0.9475 | -0.0003            | -0.0009       | -0.0017          | -0.0037       | <b>CNY</b> 4.5159  | 4.7661       |
| NZD/JPY               | 70.32  | -0.08              | -0.33         | -0.60            | -1.17         | <b>DKK</b> 4.3623  | 4.6040       |
| NZD/EUR               | 0.5838 | -0.0008            | -0.0028       | -0.0053          | -0.0105       | <b>FJD</b> 1.4067  | 1.4846       |
| NZD/GBP               | 0.4975 | -0.0002            | -0.0008       | -0.0014          | -0.0027       | <b>HKD</b> 5.0293  | 5.3080       |
|                       |        |                    |               |                  |               | <b>KRW</b> 756.02  | 797.91       |
| AU TWI                | 58.90  |                    |               |                  |               | <b>MYR</b> 2.6826  | 2.8312       |
| AUD/USD               | 0.6781 | 0.0005             | 0.0016        | 0.0031           | 0.0058        | <b>NOK</b> 5.8853  | 6.2113       |
| AUD/NZD               | 1.0554 | 0.0003             | 0.0010        | 0.0019           | 0.0041        | <b>SEK</b> 6.1493  | 6.4900       |
| AUD/JPY               | 74.23  | -0.06              | -0.28         | -0.50            | -0.95         | <b>SGD</b> 0.8771  | 0.9257       |
| AUD/EUR               | 0.6162 | -0.0007            | -0.0024       | -0.0045          | -0.0087       | <b>TWD</b> 19.61   | 20.69        |
| AUD/GBP               | 0.5251 | -0.0001            | -0.0004       | -0.0005          | -0.0008       | <b>ZAR</b> 9.4789  | 10.0041      |
| USD Index             | 98.37  |                    |               |                  |               |                    |              |
| EUR/USD               | 1.1004 | 0.0022             | 0.0068        | 0.0131           | 0.0253        | <b>EQUITIES</b>    |              |
| USD/JPY               | 109.48 | -0.18              | -0.66         | -1.23            | -2.33         |                    | <b>Index</b> |
| GBP/USD               | 1.2913 | 0.0012             | 0.0040        | 0.0071           | 0.0130        | <b>NZX50</b>       | 11,121       |
| EUR/GBP               | 0.8522 | 0.0009             | 0.0027        | 0.0054           | 0.0109        | <b>ASX200</b>      | 6,851        |
|                       |        |                    |               |                  |               | <b>Dow Jones</b>   | 28,172       |
|                       |        |                    |               |                  |               | <b>S&amp;P 500</b> | 3,154        |
|                       |        |                    |               |                  |               | <b>FTSE100</b>     | 7,430        |
|                       |        |                    |               |                  |               | <b>DAX 30</b>      | 13,287       |
|                       |        |                    |               |                  |               | <b>Nikkei</b>      | 23,438       |
|                       |        |                    |               |                  |               |                    |              |
|                       |        |                    |               |                  |               | <b>COMMODITIES</b> |              |
|                       |        |                    |               |                  |               |                    | <b>USD</b>   |
|                       |        |                    |               |                  |               | <b>Dubai Light</b> | 63.44        |
|                       |        |                    |               |                  |               | <b>Brent Crude</b> | 63.85        |
|                       |        |                    |               |                  |               | <b>Gold</b>        | 1,454.70     |
|                       |        |                    |               |                  |               | <b>Silver</b>      | 16.98        |
|                       |        |                    |               |                  |               | <b>CRB Index</b>   | 190.52       |
|                       |        |                    |               |                  |               |                    |              |
| <b>INTEREST RATES</b> |        | <b>New Zealand</b> |               | <b>Australia</b> |               |                    |              |
|                       |        | <b>Borrow</b>      | <b>Invest</b> | <b>Borrow</b>    | <b>Invest</b> |                    |              |
| 30 day bank bills     |        | 1.20%              | 1.16%         | 0.85%            | 0.83%         |                    |              |
| 90 day bank bills     |        | 1.25%              | 1.21%         | 0.91%            | 0.87%         |                    |              |
| FRA 90d in 3mths      |        | 1.19%              | 1.16%         | 0.75%            | 0.70%         |                    |              |
| FRA 180d in 6mths     |        | 1.12%              | 1.11%         | 0.74%            | 0.70%         |                    |              |
| 1 year swap*          |        | 1.15%              | 1.12%         | 0.73%            | 0.72%         |                    |              |
| 2 year swap*          |        | 1.14%              | 1.11%         | 0.70%            | 0.69%         |                    |              |
| 3 year swap*          |        | 1.15%              | 1.12%         | 0.72%            | 0.71%         |                    |              |
| 5 year swap*          |        | 1.21%              | 1.18%         | 0.91%            | 0.90%         |                    |              |
| 10 year swap*         |        | 1.48%              | 1.45%         | 1.22%            | 1.21%         |                    |              |
| 10 year Govt bond     |        |                    | 1.28%         |                  | 1.02%         |                    |              |

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

SOURCE: Bloomberg

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