



BANCORP

BANCORP TREASURY SERVICES LIMITED

MARKET ALERT

Tuesday 3 December 2019 | www.bancorptreasury.com

| CURRENCIES | Spot | 6mths |
|------------|--------|---------|
| NZD/USD | 0.6503 | 0.0017 |
| NZD/AUD | 0.9538 | -0.0019 |
| NZD/JPY | 70.88 | -0.62 |
| NZD/EUR | 0.5871 | -0.0055 |
| NZD/GBP | 0.5027 | -0.0015 |
| NZD/CNH | 4.5802 | 0.0354 |
| AUD/USD | 0.6818 | 0.0031 |
| AUD/EUR | 0.6155 | -0.0045 |
| EUR/USD | 1.1077 | 0.0133 |
| USD/CNH | 7.0433 | 0.0363 |
| GBP/USD | 1.2938 | 0.0071 |
| EUR/GBP | 0.8562 | 0.0055 |

| INT RATES | NZ | Australia |
|--------------|-------|-----------|
| OCR/Cash | 1.00% | 0.75% |
| 90 day bills | 1.22% | 0.89% |
| 2 year swap | 1.19% | 0.73% |
| 10 year Govt | 1.35% | 1.09% |

Strangers on the podium

The weaker USD was not a universal event last night. The GBP, CAD and CNY were little changed against the USD.

Significantly, a number of currencies gained spectacularly against the USD — the NZD, CHF, JPY, AUD and EUR in that order.

It has been a long time since those five currencies have shared the podium in the race against the USD. The CHF and JPY typically rise on geopolitical, trade or growth worries while the NZD, AUD

and EUR tend to rise when those same worries abate.

Furthermore, the NZD led the peloton due to the boost from another dose of better than expected data. New Zealand's terms of trade rose by 1.9% over the September quarter to its second highest level ever.

Export prices rose 1.9% over the quarter due to higher meat and dairy prices (repeating similar rises in the June quarter) that offset the largest quarterly fall by forest products (mainly logs).

Meat prices are at record highs, pushed up the effects of the swine fever outbreak in China resulting in dramatically reduced pork supplies, and the search for substitute meat and protein (which added to dairy prices' recent upward momentum). Import prices were unchanged over the quarter.

The terms of trade data, on the back of last week's better than expected retail sales and consumer confidence data, gave the NZD a huge lift across the board.

Notable, the NZD/USD broke above 0.6500 and the NZD/AUD hit 0.9547, their highest level since early August.

The NZD/USD's overnight move took it above key resistance points and its recent range. There now looms a real prospect of the NZD/USD making further gains, especially if speculators holding short NZD/USD positions decide to bank profits and their Christmas bonus while they can.

Weak US manufacturing data

The ISM manufacturing PMI showed that the US industrial sector contracted in November for its fourth straight month against a backdrop of weaker orders and production. This contrasts to other areas of the world who posted positive results.

The US ISM manufacturing PMI declined from 48.3 in October to 48.1 in November, contrary to market expectations of 49.2. It highlights that the US manufacturing sector lacks upward momentum in an environment of corporate investment cutbacks, subdued global demand, and an uncertain US/China trade war.

Eurozone and German manufacturing PMI beat market expectations, coming in at 46.9 and 44.1 beating the initial estimates of 46.6 and 43.8 respectively. Japan's Jibuan Bank manufacturing PMI measure also rose in November, posting a 0.3 gain to 48.9.

Despite the non US PMI indices beating market expectations, they are still in contractionary territory. What the ISM figures illustrate is that the US manufacturing sector is moving further down the rabbit hole, while the rest of the world seems to be moving out of it, or maybe it's just that the worst is over for the global manufacturing economy.

The USD and US equities took a hit and Treasuries yields fell following the US PMI data. The NZD/USD is currently consolidating just above 0.6500.

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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 | 72.19 | | | | | CAD 0.8647 | 0.9066 |
| NZD/USD | 0.6503 | 0.0003 | 0.0009 | 0.0017 | 0.0027 | CHF 0.6451 | 0.6763 |
| NZD/AUD | 0.9538 | -0.0004 | -0.0009 | -0.0019 | -0.0041 | CNY 4.5775 | 4.7992 |
| NZD/JPY | 70.88 | -0.16 | -0.33 | -0.62 | -1.21 | DKK 4.3864 | 4.5988 |
| NZD/EUR | 0.5871 | -0.0012 | -0.0028 | -0.0055 | -0.0108 | FJD 1.4254 | 1.4944 |
| NZD/GBP | 0.5027 | -0.0005 | -0.0008 | -0.0015 | -0.0028 | HKD 5.0910 | 5.3375 |
| | | | | | | KRW 771.27 | 808.63 |
| AU TWI | 58.90 | | | | | MYR 2.7023 | 2.8331 |
| AUD/USD | 0.6818 | 0.0006 | 0.0016 | 0.0031 | 0.0057 | NOK 5.9614 | 6.2502 |
| AUD/NZD | 1.0484 | 0.0004 | 0.0010 | 0.0021 | 0.0045 | SEK 6.2052 | 6.5058 |
| AUD/JPY | 74.31 | -0.14 | -0.28 | -0.50 | -0.95 | SGD 0.8885 | 0.9315 |
| AUD/EUR | 0.6155 | -0.0011 | -0.0024 | -0.0045 | -0.0087 | TWD 19.84 | 20.80 |
| AUD/GBP | 0.5270 | -0.0003 | -0.0004 | -0.0005 | -0.0007 | ZAR 9.4823 | 9.9415 |
| USD Index | 97.92 | | | | | | |
| EUR/USD | 1.1077 | 0.0029 | 0.0070 | 0.0133 | 0.0253 | EQUITIES | |
| USD/JPY | 109.00 | -0.30 | -0.67 | -1.22 | -2.29 | | Index |
| GBP/USD | 1.2938 | 0.0019 | 0.0040 | 0.0071 | 0.0126 | NZX50 | 11,302 |
| EUR/GBP | 0.8562 | 0.0010 | 0.0027 | 0.0055 | 0.0111 | ASX200 | 6,862 |
| | | | | | | Dow Jones | 27,831 |
| | | | | | | S&P 500 | 3,118 |
| | | | | | | FTSE100 | 7,286 |
| | | | | | | DAX 30 | 12,965 |
| | | | | | | Nikkei | 23,530 |
| | | | | | | COMMODITIES | |
| | | | | | | | USD |
| | | | | | | Dubai Light | 60.99 |
| | | | | | | Brent Crude | 61.11 |
| | | | | | | Gold | 1,464.07 |
| | | | | | | Silver | 16.93 |
| | | | | | | CRB Index | 187.26 |

| INTEREST RATES | New Zealand | | Australia | |
|-------------------|-------------|--------|-----------|--------|
| | Borrow | Invest | Borrow | Invest |
| 30 day bank bills | 1.20% | 1.16% | 0.84% | 0.82% |
| 90 day bank bills | 1.24% | 1.20% | 0.91% | 0.87% |
| FRA 90d in 3mths | 1.21% | 1.18% | 0.76% | 0.71% |
| FRA 180d in 6mths | 1.20% | 1.17% | 0.77% | 0.73% |
| 1 year swap* | 1.22% | 1.19% | 0.74% | 0.73% |
| 2 year swap* | 1.21% | 1.18% | 0.73% | 0.72% |
| 3 year swap* | 1.22% | 1.19% | 0.77% | 0.77% |
| 5 year swap* | 1.28% | 1.24% | 0.98% | 0.97% |
| 10 year swap* | 1.57% | 1.53% | 1.30% | 1.30% |
| 10 year Govt bond | | 1.34% | | 1.09% |

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

SOURCE: Bloomberg

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