



BANCORP

BANCORP TREASURY SERVICES LIMITED

MARKET ALERT

Thursday 23 January 2020 | www.bancorptreasury.com

CURRENCIES	Spot	6mths
NZD/USD	0.6587	0.0016
NZD/AUD	0.9633	-0.0019
NZD/JPY	72.36	-0.55
NZD/EUR	0.5940	-0.0051
NZD/GBP	0.5020	-0.0016
NZD/CNH	4.5517	0.0340
AUD/USD	0.6838	0.0031
AUD/EUR	0.6167	-0.0041
EUR/USD	1.1087	0.0124
USD/CNH	6.9098	0.0345
GBP/USD	1.3122	0.0074
EUR/GBP	0.8449	0.0047

INT RATES	NZ	Australia
OCR/Cash	1.00%	0.75%
90 day bills	1.27%	0.83%
2 year swap	1.21%	0.70%
10 year Govt	1.52%	1.12%

Davos attracts further headlines

President Trump once again was the king headline maker at Davos this time taking aim, firstly, at the EU with the threat of trade levies on auto imports for countries that proceed with a tax on digital services. At this stage, the French have struck a deal with the US to delay such taxes, although it does put them at odds with the UK as the Chancellor of the Exchequer, Sajid Javid, intends to push through with their tax plan in April.

Secondly, Trump took a parting shot at the World Trade Organisation, saying he has something “*very dramatic*” in mind for the WTO.

In other news from Davos, (soon-to-be former) Bank of England Governor, Mark Carney, was on the news wires warning of mounting risks to the financial sector and the global economies from climate change, and that the US need to do more, while Bob Prince, the co-chief investment officer at Bridgewater, stated that the traditional boom bust economic cycle is now over.

Equity markets reacted positively to the delayed collection of the digital tax to set a positive tone for the day, and this was further cemented with a sense that China is coming to grips with the coronavirus, although markets retreated from their highs on the announcement that the death toll had risen to 17.

The NZD has eased off slightly overnight with the USD index, JPY, and Euro predominately unchanged. Similarly, international yields were flat with the 10 year US treasury unchanged at 1.77%.

Bank of Canada holds rates

The Bank of Canada held its benchmark rate at 1.75% for its 10th consecutive meeting on Wednesday but expressed concern about sluggish growth in the economy, suggesting more of a dovish tone heading into 2020.

The central bank highlighted that the weakness experienced in the economy in 2019 could spill into 2020 and may continue.

Policy makers revised near term growth projections and expressed that the

global slowdown may be spreading to households, affecting domestic spending more than previously expected. Stephen Poloz, one of the more hawkish central bankers, stated “*I’m not saying that the door is not open to an interest rate cut, obviously it is, it is open.*” He then stated borrowing costs remain “*appropriate*” for the time being.

The Canadian economy was viewed as one that was resilient in the face of global uncertainty and running near capacity in 2019. Wednesday’s central bank meeting put this to question as it appears the Canadian central bankers are anxious and have a more dovish outlook than the market expected.

Canada has the highest policy rate among the major advanced economies, but poor retail sales and GDP data released in December has spooked policy makers. Policy makers stated that “*in assessing incoming data, the bank will be paying particular attention to developments in consumer spending, the housing market and business investment.*”

The bank of Canada may assess the impact that rate cuts have had on, for example, New Zealand’s economy (as the two nations had the same policy rate before NZ’s cutting cycle) and may follow suit.

The CAD slipped 0.6% against the USD overnight and the Two Year Government bond yield fell 7 bps to 1.58%. The market ramped up bets for rate cuts with a move fully priced in over the next 12 months. On Tuesday, markets were only pricing a 50/50 chance.

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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	72.48					CAD 0.8660	0.8989
NZD/USD	0.6587	0.0003	0.0009	0.0016	0.0026	CHF 0.6380	0.6623
NZD/AUD	0.9633	-0.0002	-0.0009	-0.0019	-0.0044	CNY 4.5382	4.7111
NZD/JPY	72.36	-0.09	-0.26	-0.55	-1.15	DKK 4.4389	4.6080
NZD/EUR	0.5940	-0.0009	-0.0026	-0.0051	-0.0106	FJD 1.4301	1.4846
NZD/GBP	0.5020	-0.0003	-0.0008	-0.0016	-0.0035	HKD 5.1195	5.3145
						KRW 767.82	797.08
AU TWI	58.90					MYR 2.6780	2.7800
AUD/USD	0.6838	0.0005	0.0015	0.0031	0.0058	NOK 5.9162	6.1416
AUD/NZD	1.0381	0.0003	0.0009	0.0021	0.0047	SEK 6.2598	6.4983
AUD/JPY	75.13	-0.07	-0.21	-0.42	-0.85	SGD 0.8887	0.9225
AUD/EUR	0.6167	-0.0008	-0.0021	-0.0041	-0.0083	TWD 19.76	20.51
AUD/GBP	0.5211	-0.0001	-0.0003	-0.0006	-0.0013	ZAR 9.4515	9.8115
USD Index	97.57						
EUR/USD	1.1087	0.0021	0.0063	0.0124	0.0247	EQUITIES	
USD/JPY	109.89	-0.18	-0.54	-1.10	-2.17		Index
GBP/USD	1.3122	0.0012	0.0037	0.0074	0.0145	NZX50	11,890
EUR/GBP	0.8449	0.0008	0.0024	0.0047	0.0093	ASX200	7,133
						Dow Jones	29,276
						S&P 500	3,332
						FTSE100	7,572
						DAX 30	13,516
						Nikkei	24,031
						COMMODITIES	
							USD
						Dubai Light	63.44
						Brent Crude	63.37
						Gold	1,557.19
						Silver	17.82
						CRB Index	190.87

INTEREST RATES	New Zealand		Australia	
	Borrow	Invest	Borrow	Invest
30 day bank bills	1.21%	1.17%	0.79%	0.77%
90 day bank bills	1.29%	1.25%	0.85%	0.81%
FRA 90d in 3mths	1.20%	1.15%	0.71%	0.66%
FRA 180d in 6mths	1.17%	1.14%	0.77%	0.73%
1 year swap*	1.22%	1.19%	0.72%	0.71%
2 year swap*	1.22%	1.19%	0.71%	0.70%
3 year swap*	1.24%	1.21%	0.74%	0.73%
5 year swap*	1.34%	1.31%	0.94%	0.93%
10 year swap*	1.65%	1.62%	1.26%	1.25%
10 year Govt bond		1.50%		1.12%

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

SOURCE: Bloomberg

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