



MARKET ALERT

Tuesday 28 January 2020 | www.bancorptreasury.com

CURRENCIES	Spot	6mths
NZD/USD	0.6550	0.0015
NZD/AUD	0.9692	-0.0015
NZD/JPY	71.38	-0.53
NZD/EUR	0.5946	-0.0052
NZD/GBP	0.5020	-0.0016
NZD/CNH	4.5743	0.0339
AUD/USD	0.6758	0.0026
AUD/EUR	0.6135	-0.0044
EUR/USD	1.1015	0.0122
USD/CNH	6.9832	0.0355
GBP/USD	1.3050	0.0073
EUR/GBP	0.8441	0.0046

INT RATES	NZ	Australia
OCR/Cash	1.00%	0.75%
90 day bills	1.28%	0.90%
2 year swap	1.19%	0.65%
10 year Govt	1.45%	1.09%

Coronavirus causes a big shift away from risk

Frequent news reports of the rising death toll in China from the coronavirus, its spread around the world and actions by various bodies (e.g. governments, health officials, sporting bodies) have generated a big risk off move in financial markets. And there is more to come.

Those sharemarkets that were open yesterday, fell. Those that were closed for a holiday are expected to fall on open, with notable falls expected in Chinese and Australian stockmarkets. Most of

the money exiting equities went into the safety of government bonds. The yields on US, German and UK benchmark 10 year government bonds fell to their lowest in three months. Australian swap rates out to three years are below the RBA's 0.75% cash rate.

The price of gold and other precious metals rose dramatically while the prices of oil and industrialised metals (notably copper, aluminium and coal) fell just as dramatically.

Among currencies, the JPY was the biggest, and about the only, winner. The CNH was the biggest loser with the AUD a close second because those economies are expected to be worse hit by the coronavirus. The AUD/USD dropped to a three month low yesterday, pulling down the NZD/USD with it until the NZD/USD hit solid support around 0.6550. As a result, the NZD/AUD is sitting at its highest since March last year (if you ignore the massive blip on the day the RBNZ's surprise 50 bps OCR cut in August) and threatening to push above 0.9700.

Inflation ... sort of!

New Zealand's CPI rose 0.5% over the December quarter and 1.9% over the year, compared to 0.7% and 1.5% respectively in September. Market consensus was for a 0.4% rise over the quarter and the RBNZ forecast a much smaller 0.2% rise in its November MPS.

Again, non-tradables (which are much less influenced by monetary policy, interest rates and the exchange rate) provided the greater source of domestic inflation, rising 0.6% over the quarter and 3.1% over the year. The annual rise in non-tradable prices was driven by higher prices for rents, cigarettes and tobacco (as a result of excise increases), local authority rates and construction cost for new houses.

Tradables inflation rose 0.4% over the December quarter and a meagre 0.1% over the year, from up 0.1% and down 0.7% respectively in September. A 2.1% jump in transport costs (international air travel, accommodation and petrol) was the main driver for the quarter's rise in tradables inflation.

The RBNZ's underlying (sectoral factor model) inflation measure rose 1.8% over the December year, from 1.7% in September.

The inflation data should not alter the RBNZ's wait and see stance. Nevertheless, markets used the higher than expected CPI numbers as a reason to buy the NZD, lifting it to the day's best performing industrialised currency, and to push up short swap rates (longer swap rates resisted because of greater pressure from lower US Treasury yields and Australian swap rates). Yesterday's global risk off shift reversed those rises, and more, except for the NZD/AUD.

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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	72.39					CAD	0.8633 0.8907
NZD/USD	0.6550	0.0003	0.0008	0.0015	0.0022	CHF	0.6356 0.6557
NZD/AUD	0.9692	-0.0001	-0.0006	-0.0015	-0.0040	CNY	4.5265 4.6703
NZD/JPY	71.38	-0.08	-0.26	-0.53	-1.14	DKK	4.4438 4.5850
NZD/EUR	0.5946	-0.0009	-0.0026	-0.0052	-0.0107	FJD	1.4233 1.4685
NZD/GBP	0.5020	-0.0003	-0.0008	-0.0016	-0.0037	HKD	5.0941 5.2559
						KRW	771.36 795.87
AU TWI	59.00					MYR	2.6658 2.7505
AUD/USD	0.6758	0.0004	0.0012	0.0026	0.0051	NOK	5.9870 6.1772
AUD/NZD	1.0318	0.0001	0.0006	0.0016	0.0043	SEK	6.3025 6.5028
AUD/JPY	73.65	-0.08	-0.23	-0.44	-0.87	SGD	0.8893 0.9175
AUD/EUR	0.6135	-0.0008	-0.0023	-0.0044	-0.0085	TWD	19.73 20.36
AUD/GBP	0.5179	-0.0002	-0.0005	-0.0009	-0.0016	ZAR	9.5637 9.8676
USD Index	97.97						
EUR/USD	1.1015	0.0020	0.0062	0.0122	0.0240	EQUITIES	
USD/JPY	108.99	-0.17	-0.54	-1.07	-2.10		Index
GBP/USD	1.3050	0.0012	0.0037	0.0073	0.0141	NZX50	11,807
EUR/GBP	0.8441	0.0008	0.0023	0.0046	0.0092	ASX200	7,091
						Dow Jones	28,594
						S&P 500	3,256
						FTSE100	7,412
						DAX 30	13,205
						Nikkei	23,344
						COMMODITIES	
							USD
						Dubai Light	61.51
						Brent Crude	59.29
						Gold	1,579.33
						Silver	18.07
						CRB Index	183.39

INTEREST RATES	New Zealand		Australia	
	Borrow	Invest	Borrow	Invest
30 day bank bills	1.22%	1.18%	0.83%	0.81%
90 day bank bills	1.30%	1.26%	0.92%	0.88%
FRA 90d in 3mths	1.21%	1.18%	0.73%	0.68%
FRA 180d in 6mths	1.16%	1.13%	0.72%	0.68%
1 year swap*	1.20%	1.18%	0.71%	0.70%
2 year swap*	1.20%	1.17%	0.66%	0.64%
3 year swap*	1.21%	1.19%	0.68%	0.67%
5 year swap*	1.28%	1.26%	0.85%	0.83%
10 year swap*	1.55%	1.53%	1.13%	1.12%
10 year Govt bond		1.43%		1.09%

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

SOURCE: Bloomberg

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