



BANCORP

BANCORP TREASURY SERVICES LIMITED

MARKET ALERT

Thursday 30 January 2020 | www.bancorptreasury.com

CURRENCIES	Spot	6mths
NZD/USD	0.6527	0.0015
NZD/AUD	0.9673	-0.0015
NZD/JPY	71.26	-0.53
NZD/EUR	0.5929	-0.0052
NZD/GBP	0.5013	-0.0016
NZD/CNH	4.5467	0.0337
AUD/USD	0.6747	0.0027
AUD/EUR	0.6130	-0.0044
EUR/USD	1.1005	0.0123
USD/CNH	6.9666	0.0350
GBP/USD	1.3019	0.0071
EUR/GBP	0.8453	0.0048

INT RATES	NZ	Australia
OCR/Cash	1.00%	0.75%
90 day bills	1.26%	0.90%
2 year swap	1.16%	0.66%
10 year Govt	1.38%	1.01%

Markets nervously watching and waiting

As the markets await this morning's Fed decision, participants are maintaining a 'steady as she goes' approach to the coronavirus and watching the US earnings season cautiously. Apple smashed it out of the park with revenues up 9%, EPS beating market expectations and a cash balance of USD207 billion ... wouldn't the New Zealand Treasury like that! On the other side of the coin, Boeing posted its first annual loss, of

USD636 million, in more than 20 years as the 737 Max crisis drags on.

Elsewhere, oil fell after a government report showed a large jump in US crude oil stockpiles; the fall was mostly reversed on news of an oil tanker fire near the UAE. Meanwhile the European Parliament rubber stamped UK Prime Minister, Boris Johnson's, Brexit deal, clearing the way for the UK to leave the EU on tomorrow.

Fed as expected

As universally expected, the Fed's FOMC decided to keep the target range for the Fed Funds rate at 1.50%-1.75%. Markets were more uncertain about the tone of the FOMC's statement and any guidance on its practice of purchasing USD60 billion per month of Treasury Bills. The interest rate decision was unanimous and repeated that *"the current stance of monetary policy is appropriate to support sustained expansion of economic activity, strong labour market conditions, and inflation returning to the Committee's symmetric 2 percent objective"* which is a slight tweak on its language about inflation.

There was little new guidance on the Fed's balance sheet intentions, stating that it will continue its overnight repo operations and Treasury Bill purchases at least through to April (i.e. after the key March FOMC meeting) although it lifted

its two key market rates — the IOER (deposit) and repo rates (lending) — each by 5 bps.

Treasury yields and the USD were unmoved by the FOMC announcement, which left the NZD/USD and AUD/USD unchanged.

Some inflation in Australia

Australian CPI rose 0.7% over the December quarter, contrary to market expectations for an easing from September's 0.5% rise to 0.4%.

As a result, the annual inflation rate edged from 1.7% in September to 1.8% in December. Conversely, the underlying inflation measures came in as expected — both the trimmed mean and weighted mean rose 0.4% over the December quarter taking their annual rises to 1.6% and 1.3% respectively.

The higher than expected headline CPI numbers caused many to question the market pricing of an RBA rate cut in June, which lifted swap rates and the AUD. However, the steady underlying inflation numbers reinforced the RBA's wait and see stance, which ameliorated some of the markets' responses and limited the rises by swap rates and the AUD. Markets now fully price in an RBA rate cut in July — only one month's delay.

The AUD/USD was lower on the day because of a stronger USD overnight.

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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	72.21					CAD	0.8617 0.8908
NZD/USD	0.6527	0.0003	0.0008	0.0015	0.0023	CHF	0.6359 0.6574
NZD/AUD	0.9673	-0.0002	-0.0006	-0.0015	-0.0039	CNY	4.5102 4.6626
NZD/JPY	71.26	-0.07	-0.26	-0.53	-1.13	DKK	4.4316 4.5814
NZD/EUR	0.5929	-0.0008	-0.0025	-0.0052	-0.0106	FJD	1.4249 1.4731
NZD/GBP	0.5013	-0.0002	-0.0007	-0.0016	-0.0035	HKD	5.0729 5.2444
						KRW	769.68 795.70
AU TWI	58.50					MYR	2.6649 2.7549
AUD/USD	0.6747	0.0004	0.0013	0.0027	0.0051	NOK	5.9837 6.1859
AUD/NZD	1.0338	0.0002	0.0006	0.0016	0.0042	SEK	6.2808 6.4931
AUD/JPY	73.67	-0.07	-0.22	-0.44	-0.87	SGD	0.8882 0.9182
AUD/EUR	0.6130	-0.0007	-0.0022	-0.0044	-0.0086	TWD	19.66 20.33
AUD/GBP	0.5182	-0.0001	-0.0004	-0.0008	-0.0015	ZAR	9.5382 9.8606
USD Index	98.14						
EUR/USD	1.1005	0.0019	0.0061	0.0123	0.0241	EQUITIES	
USD/JPY	109.20	-0.16	-0.53	-1.07	-2.11		Index
GBP/USD	1.3019	0.0011	0.0036	0.0071	0.0138	NZX50	11,677
EUR/GBP	0.8453	0.0007	0.0024	0.0048	0.0094	ASX200	7,032
						Dow Jones	28,889
						S&P 500	3,288
						FTSE100	7,484
						DAX 30	13,345
						Nikkei	23,379
						COMMODITIES	
							USD
						Dubai Light	59.00
						Brent Crude	59.68
						Gold	1,571.81
						Silver	17.49
						CRB Index	183.00
INTEREST RATES		New Zealand		Australia			
		Borrow	Invest	Borrow	Invest		
30 day bank bills		1.23%	1.19%	0.83%	0.81%		
90 day bank bills		1.28%	1.24%	0.92%	0.88%		
FRA 90d in 3mths		1.20%	1.17%	0.73%	0.68%		
FRA 180d in 6mths		1.16%	1.13%	0.73%	0.69%		
1 year swap*		1.19%	1.16%	0.72%	0.71%		
2 year swap*		1.17%	1.14%	0.67%	0.66%		
3 year swap*		1.18%	1.16%	0.68%	0.67%		
5 year swap*		1.24%	1.22%	0.86%	0.85%		
10 year swap*		1.51%	1.48%	1.14%	1.14%		
10 year Govt bond			1.37%		1.01%		

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

SOURCE: Bloomberg

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