



MARKET ALERT

Friday 31 January 2020 | www.bancorptreasury.com

CURRENCIES	Spot	6mths
NZD/USD	0.6484	0.0015
NZD/AUD	0.9664	-0.0016
NZD/JPY	70.45	-0.52
NZD/EUR	0.5875	-0.0051
NZD/GBP	0.4955	-0.0013
NZD/CNH	4.5376	0.0338
AUD/USD	0.6710	0.0026
AUD/EUR	0.6079	-0.0043
EUR/USD	1.1037	0.0121
USD/CNH	6.9984	0.0362
GBP/USD	1.3085	0.0063
EUR/GBP	0.8435	0.0052

INT RATES	NZ	Australia
OCR/Cash	1.00%	0.75%
90 day bills	1.26%	0.89%
2 year swap	1.13%	0.63%
10 year Govt	1.29%	0.96%

Market wrap

Risk off sentiment overnight as fears around the coronavirus rattling the fragile state of the global economy.

The 10-year Treasury Bond yield fell to 1.54% overnight and the 3 month-10 year spread ticked back negative. These levels were last seen in October when the US/China trade war, Brexit and other geopolitical uncertainties were at their peak.

Data wise, Australia's terms of trade declined as import prices increased and export prices fell; leading the fall in exports was iron ore and coal due to

increased supply and a fall in demand. Eurozone data looked hopeful; economic confidence rose, the unemployment rate fell, and consumer confidence remained unchanged. Meanwhile German CPI was as expected.

With the coronavirus death toll rising, investors sought sanctuary in the JPY, CHF, and, to a lesser extent, the USD. This has seen the NZD fall across all its crosses, except the AUD where it has held steady. Meanwhile, China's offshore Yuan briefly weakened past 7.000 against the USD for this first time this year. This morning we expect domestic interest rates to open approximately 4-5 points lower with the curve flattening.

Bank of England surprise

The BoE, surprisingly, left rates unchanged at 0.75% on a 7-2 vote. The committee noted that recent business surveys had picked up "quite markedly" since the Conservative's December election victory, which had removed a lot of the Brexit uncertainty.

While this was supportive of the pound and saw NZD/GBP break below the 0.5000 level, the MPC committee did warn that future easing may still be required on lower GDP and inflation forecasts. Governor Carney also stressed that their economic projections assume, "an immediate but orderly move" to a new "deep free trade agreement" with the EU ... so, good luck with that!

NZ trade surplus surprise

The December month trade balance produced a better than expected trade surplus of NZD547 million, versus NZD100 million, however, the NZD was largely unmoved on the result, with wider global events taking market interest away from local data. Exports were up 5% and imports were down 5% in December 2019 compared to December 2018, and the month's result represented a sharp turnaround from November's NZD 753 million deficit.

For the 2019 calendar year, exports rose NZD2.7 billion (up 4.7%) to NZD59.9 billion, while imports rose just NZD0.8 billion (up 1.3%) to NZD64.2 billion. Overall the annual trade balance was a deficit of NZD4.3 billion, down sharply from NZD6.2 billion in the 2018 calendar year.

The improvement in annual figures was largely down to a strong agricultural sector. Agriculture was the highlight in the December month. The surplus was largely driven by a strong rise in the value of dairy exports (up 13% to NZD2.0 billion) such as whole milk powder, butter, and cheese, and meat exports, particularly beef (up 41% to NZD392 million) and lamb (up 9.5% to NZD251 million).

New Zealand's exposure to China jumped in 2019 with the trade surplus rising NZD1.3 billion to NZD3.8 billion. Exports were up 21% to NZD16.7 billion with imports up 3.7% to NZD13.0 billion.

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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	71.83					CAD	0.8571 0.8869
NZD/USD	0.6484	0.0003	0.0008	0.0015	0.0021	CHF	0.6281 0.6500
NZD/AUD	0.9664	-0.0002	-0.0006	-0.0016	-0.0039	CNY	4.4810 4.6370
NZD/JPY	70.45	-0.08	-0.26	-0.52	-1.11	DKK	4.3900 4.5428
NZD/EUR	0.5875	-0.0008	-0.0025	-0.0051	-0.0105	FJD	1.4162 1.4655
NZD/GBP	0.4955	-0.0002	-0.0006	-0.0013	-0.0030	HKD	5.0365 5.2119
						KRW	773.57 800.51
AU TWI	58.30					MYR	2.6606 2.7532
AUD/USD	0.6710	0.0004	0.0013	0.0026	0.0049	NOK	5.9670 6.1747
AUD/NZD	1.0348	0.0002	0.0007	0.0017	0.0042	SEK	6.2513 6.4690
AUD/JPY	72.91	-0.07	-0.22	-0.42	-0.86	SGD	0.8838 0.9146
AUD/EUR	0.6079	-0.0007	-0.0022	-0.0043	-0.0085	TWD	19.63 20.31
AUD/GBP	0.5128	-0.0001	-0.0003	-0.0005	-0.0010	ZAR	9.6112 9.9458
USD Index	97.83						
EUR/USD	1.1037	0.0019	0.0062	0.0121	0.0237	EQUITIES	
USD/JPY	108.66	-0.17	-0.54	-1.05	-2.05		Index
GBP/USD	1.3085	0.0010	0.0032	0.0063	0.0121	NZX50	11,666
EUR/GBP	0.8435	0.0008	0.0026	0.0052	0.0102	ASX200	7,008
						Dow Jones	28,622
						S&P 500	3,253
						FTSE100	7,382
						DAX 30	13,157
						Nikkei	22,978
						COMMODITIES	
							USD
						Dubai Light	57.74
						Brent Crude	57.87
						Gold	1,583.49
						Silver	17.96
						CRB Index	181.10
INTEREST RATES		New Zealand		Australia			
		Borrow	Invest	Borrow	Invest		
30 day bank bills		1.23%	1.19%	0.81%	0.79%		
90 day bank bills		1.28%	1.24%	0.91%	0.87%		
FRA 90d in 3mths		1.18%	1.16%	0.71%	0.66%		
FRA 180d in 6mths		1.13%	1.10%	0.70%	0.66%		
1 year swap*		1.17%	1.14%	0.70%	0.69%		
2 year swap*		1.14%	1.11%	0.64%	0.63%		
3 year swap*		1.14%	1.11%	0.64%	0.64%		
5 year swap*		1.20%	1.16%	0.82%	0.81%		
10 year swap*		1.45%	1.42%	1.11%	1.10%		
10 year Govt bond			1.27%		0.96%		

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

SOURCE: Bloomberg

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