



BANCORP

BANCORP TREASURY SERVICES LIMITED

MARKET ALERT

Monday 23 September 2019 | www.bancorptreasury.com

CURRENCIES	Spot	6mths
NZD/USD	0.6261	0.0027
NZD/AUD	0.9247	-0.0009
NZD/JPY	67.47	-0.56
NZD/EUR	0.5685	-0.0049
NZD/GBP	0.5023	-0.0010
NZD/CNH	4.4501	0.0412
AUD/USD	0.6773	0.0035
AUD/EUR	0.6150	-0.0047
EUR/USD	1.1013	0.0143
USD/CNH	7.1078	0.0355
GBP/USD	1.2475	0.0078
EUR/GBP	0.8828	0.0059

INT RATES	NZ Australia	
OCR/Cash	1.00%	1.00%
90 day bills	1.14%	0.92%
2 year swap	0.95%	0.79%
10 year Govt	1.15%	1.02%

Risk worries resurface

On a day without any significant data and only two days after a FOMC meeting and less than a week after a threat to global oil supply, markets were hoping for a quiet end to a busy week on Friday. They got that mostly, although unsettling developments on the US-China trade war and Iran tensions generated another bout of risk aversion.

A Chinese delegation that was in Washington last week to lay the groundwork for a meeting next month between the top US and Chinese trade

officials, were reportedly no longer planning to visit farms in Montana and elsewhere and heading home earlier than planned, which dampened hopes of progress. This news came soon after comments by Donald Trump that China's offer to boost purchases of US agriculture exports alone won't be enough to ensure a trade deal and that he doubts that a deal will be struck before the US election (November next year).

Verbal exchanges over the weekend between the US, Saudi Arabia and Iran over who was behind the attacks on the Saudi oil production facilities and a US announcement that it was deploying more troops and military fire-power in the Middle East kept that worry source simmering.

The markets' resultant risk aversion saw funds flowing into the usual safe havens — JPY, gold and government bonds. The latter were again led by Treasuries. The 10 year Treasury yield last week took back half of the previous week's jump, causing a similar retracement by local swap rates. We expect local swap rates to open lower today after the weekend's moves offshore, although those moves will be restrained ahead of Wednesday's OCR announcement. Markets expect a pause from the RBNZ, given last month's shock 0.50% 'pre-emptive' cut.

The risk averse currency flows gave the NZD/USD and AUD/USD another

nudge down after their fall on Friday. They fell in tandem, keeping the NZD/AUD close to 0.9250, and hit lows over the weekend of 0.6255 and 0.6760 respectively.

Further but subtle easing in China

The PBC again lowered the primary benchmark bank lending rate at its monthly rate re-set on Friday.

The 1 year Loan Prime Rate ("LPR"), the more dominant rate now, was lowered from 4.25% to 4.20%, while the 5 year LPR was unchanged at 4.85%. Both rates were set last month below their previous levels.

The move comes a few days after the PBC rolled over the majority of loans to banks under its Medium Term Lending Facility ("MLF") for 1 year at an unchanged rate (of 3.30%) from recent MLF operations and seemed to fly in the face of the Fed's 25 bps rate cut last week. Then again, the Chinese government and central bank probably don't want to do anything to attract the attention (and ire) of Donald Trump.

The LPR rate set generated a bout of yuan weakness, with markets lifting the USD/CNH above 7.1200, well up from Friday's USD/CNY rate set of 7.0730. The weaker yuan on Friday flowed through to the NZD and AUD, causing both to fall against the USD.

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DAILY RATES

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FX	Spot Mid	FECs (mid)				Spot Mid	
		1mth	3mths	6mths	12mths	NZD/...	AUD/...
NZ TWI	69.85					CAD	0.8301 0.8977
NZD/USD	0.6261	0.0005	0.0014	0.0027	0.0047	CHF	0.6208 0.6714
NZD/AUD	0.9247	-0.0003	-0.0006	-0.0009	-0.0015	CNY	4.4386 4.8000
NZD/JPY	67.47	-0.10	-0.27	-0.56	-1.07	DKK	4.2449 4.5905
NZD/EUR	0.5685	-0.0008	-0.0023	-0.0049	-0.0096	FJD	1.3749 1.4868
NZD/GBP	0.5023	-0.0002	-0.0005	-0.0010	-0.0017	HKD	4.9078 5.3075
						KRW	747.45 808.32
AU TWI	59.30					MYR	2.6212 2.8346
AUD/USD	0.6773	0.0007	0.0020	0.0035	0.0061	NOK	5.6737 6.1357
AUD/NZD	1.0814	0.0003	0.0007	0.0011	0.0017	SEK	6.0803 6.5754
AUD/JPY	72.97	-0.08	-0.25	-0.53	-1.04	SGD	0.8625 0.9327
AUD/EUR	0.6150	-0.0007	-0.0021	-0.0047	-0.0094	TWD	19.41 20.99
AUD/GBP	0.5429	-0.0001	-0.0002	-0.0006	-0.0010	ZAR	9.3357 10.0959
USD Index	98.51						
EUR/USD	1.1013	0.0025	0.0071	0.0143	0.0273	EQUITIES	
USD/JPY	107.74	-0.24	-0.68	-1.34	-2.49		Index
GBP/USD	1.2475	0.0015	0.0041	0.0078	0.0136	NZX50	10,829
EUR/GBP	0.8828	0.0009	0.0028	0.0059	0.0121	ASX200	6,731
						Dow Jones	26,935
						S&P 500	2,992
						FTSE100	7,345
						DAX 30	12,468
						Nikkei	22,079
						COMMODITIES	
							USD
						Dubai Light	63.29
						Brent Crude	64.28
						Gold	1,516.65
						Silver	17.99
						CRB Index	186.83

INTEREST RATES	New Zealand		Australia	
	Borrow	Invest	Borrow	Invest
30 day bank bills	1.20%	1.16%	1.02%	1.00%
90 day bank bills	1.18%	1.14%	0.94%	0.90%
FRA 90d in 3mths	1.05%	1.02%	0.89%	0.84%
FRA 180d in 6mths	0.92%	0.89%	0.86%	0.82%
1 year swap*	1.02%	0.99%	0.86%	0.84%
2 year swap*	0.96%	0.93%	0.80%	0.79%
3 year swap*	0.94%	0.91%	0.80%	0.80%
5 year swap*	0.98%	0.95%	0.93%	0.92%
10 year swap*	1.27%	1.24%	1.20%	1.19%
10 year Govt bond		1.13%		1.02%

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

SOURCE: Bloomberg

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