



BANCORP

BANCORP TREASURY SERVICES LIMITED

MARKET ALERT

Tuesday 24 September 2019 | www.bancorp-treasury.com

CURRENCIES	Spot	6mths
NZD/USD	0.6295	0.0025
NZD/AUD	0.9295	-0.0009
NZD/JPY	67.61	-0.57
NZD/EUR	0.5724	-0.0051
NZD/GBP	0.5061	-0.0011
NZD/CNH	4.4773	0.0395
AUD/USD	0.6772	0.0033
AUD/EUR	0.6159	-0.0050
EUR/USD	1.0996	0.0144
USD/CNH	7.1131	0.0341
GBP/USD	1.2437	0.0078
EUR/GBP	0.8842	0.0060

INT RATES	NZ	Australia
OCR/Cash	1.00%	1.00%
90 day bills	1.14%	0.92%
2 year swap	0.93%	0.78%
10 year Govt	1.13%	1.00%

Eurozone manufacturing falls ...

PMI data released yesterday showed further contraction in European manufacturing. The Markit manufacturing PMI survey's activity index for the Eurozone fell from 47.0 in August to an initial estimate of 45.6 in September, falling further into contractionary territory.

The Eurozone services sector offset some of that manufacturing weakness, with the services PMI reading of 52.0, but that was down from 53.5 in August — an equally worrying trend. Germany remains the biggest worry for European manufacturing, with its manufacturing

PMI estimated to have fallen from a dismal 43.5 in August, to a recession threatening 41.4 in September, its lowest in more than a decade. French manufacturing provided a positive offset, with its PMI reading rising fractionally from 51.1 in August to 51.2 in September.

According to Markit, German manufacturing is contracting because *“all the uncertainty around trade wars, the outlook for the car industry and Brexit are paralysing order books.”* Germany looks set to record a second quarter of falling GDP in the September quarter — putting it into recession.

ECB President, Mario Draghi, in his last formal appearance before the European Parliament (his eight year term ends on 31 October), fuelled market concerns about Germany and the Eurozone heading for a recession. Draghi warned that economic indicators *“do not show convincing signs of a rebound in growth in the near future and the balance of risks to the growth outlook remains tilted to the downside.”*

If the downturn in Germany looks like spreading to the rest of the Eurozone, the ECB is ready to ease again. Adding his voice to the global chorus of central bankers, Draghi urged Eurozone governments to spend to support growth.

Such negativity in the manufacturing data and Draghi's comments caused the EUR and European (and UK) bond yields to fall. The NZD was unaffected by the EUR's fall, resulting in the NZD/EUR lifting back above 0.5700.

While US manufacturing improves

The IHS Markit survey of US manufacturers reported a slight lift in US manufacturing activity in September, with the headline activity reading rising from a three and a half year low of 50.3 in August, to 51.0 in September. However, the lift in manufacturing activity was offset by an unexpected fall in services sector activity, with the PMI reading falling from 50.7 in August, to 50.3 in September, contrary to expectations of a lift to 51.5.

The weak Eurozone PMI data and lower European and UK bond yields caused Treasury yields to fall, which should give local swap rates another nudge lower when they open this morning.

The USD benefited from the weaker EUR and GBP, with the USD Index rising above 98.50. However, the NZD outperformed the USD. Indications of profit taking by speculative shorts and hedging by exporters has lifted the NZD/USD to almost 0.6300 and the NZD/AUD to almost 0.9300. Local currency and interest rate markets could quickly quieten down and await Northern hemisphere action given there is no local data today.

Tonight's speech by RBA Governor, Philip Lowe, could help cement expectations around an October interest rate cut in Australia, while locally, tomorrow's OCR announcement is expected to see a brief pause in the interest rate easing cycle.

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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	70.31					CAD 0.8344	0.8977
NZD/USD	0.6295	0.0005	0.0014	0.0025	0.0045	CHF 0.6231	0.6704
NZD/AUD	0.9295	-0.0003	-0.0006	-0.0009	-0.0013	CNY 4.4807	4.8205
NZD/JPY	67.61	-0.10	-0.28	-0.57	-1.09	DKK 4.2746	4.5988
NZD/EUR	0.5724	-0.0009	-0.0025	-0.0051	-0.0099	FJD 1.3858	1.4909
NZD/GBP	0.5061	-0.0003	-0.0006	-0.0011	-0.0019	HKD 4.9340	5.3082
						KRW 752.41	809.48
AU TWI	59.30					MYR 2.6187	2.8173
AUD/USD	0.6772	0.0007	0.0019	0.0033	0.0058	NOK 5.6921	6.1238
AUD/NZD	1.0758	0.0003	0.0007	0.0010	0.0015	SEK 6.1105	6.5739
AUD/JPY	72.75	-0.09	-0.26	-0.55	-1.07	SGD 0.8673	0.9330
AUD/EUR	0.6159	-0.0008	-0.0023	-0.0050	-0.0098	TWD 19.51	20.99
AUD/GBP	0.5445	-0.0001	-0.0003	-0.0007	-0.0012	ZAR 9.3828	10.0945
USD Index	98.59						
EUR/USD	1.0996	0.0025	0.0073	0.0144	0.0274	EQUITIES	
USD/JPY	107.43	-0.24	-0.68	-1.34	-2.48		Index
GBP/USD	1.2437	0.0015	0.0042	0.0078	0.0136	NZX50	10,873
EUR/GBP	0.8842	0.0009	0.0029	0.0060	0.0123	ASX200	6,750
						Dow Jones	26,946
						S&P 500	2,995
						FTSE100	7,326
						DAX 30	12,342
						Nikkei	22,079
INTEREST RATES		New Zealand		Australia			
		Borrow	Invest	Borrow	Invest		
30 day bank bills		1.20%	1.17%	1.02%	1.00%		
90 day bank bills		1.16%	1.13%	0.94%	0.90%		
FRA 90d in 3mths		1.05%	1.02%	0.91%	0.86%		
FRA 180d in 6mths		0.91%	0.88%	0.87%	0.83%		
1 year swap*		1.00%	0.97%	0.86%	0.84%		
2 year swap*		0.95%	0.92%	0.78%	0.77%		
3 year swap*		0.93%	0.90%	0.78%	0.78%		
5 year swap*		0.96%	0.94%	0.92%	0.91%		
10 year swap*		1.25%	1.22%	1.18%	1.15%		
10 year Govt bond			1.11%		1.00%		

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

SOURCE: Bloomberg

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