



**BANCORP**

BANCORP TREASURY SERVICES LIMITED

# MARKET ALERT

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CURRENCIES	Spot	6mths
NZD/USD	0.6276	0.0024
NZD/AUD	0.9292	-0.0012
NZD/JPY	67.62	-0.61
NZD/EUR	0.5733	-0.0055
NZD/GBP	0.5078	-0.0014
NZD/CNH	4.4718	0.0362
AUD/USD	0.6754	0.0035
AUD/EUR	0.6171	-0.0051
EUR/USD	1.0945	0.0147
USD/CNH	7.1262	0.0303
GBP/USD	1.2357	0.0081
EUR/GBP	0.8857	0.0061

INT RATES	NZ Australia	
OCR/Cash	1.00%	1.00%
90 day bills	1.14%	0.94%
2 year swap	0.96%	0.79%
10 year Govt	1.11%	0.94%

## RBNZ sticks to script this time

The RBNZ's MPC yesterday left the OCR at 1.00% and its bias for domestic and global risks (and by implication, the OCR) remains to the downside, as expected. The MPC agreed with the markets consensus that everything has tracked along as expected since the pre-emptive 50 bps OCR cut last month.

The RBNZ will revise its forecast and outlooks in its November MPS, which will incorporate key inflation, employment, unemployment and wages data due for release next month.

Notably, the MPC stated that "*New Zealand interest rates can be expected to be low for longer.*" Translation — the RBNZ thinks that the OCR might go down, but it might not. Either way, the OCR will be "*low for longer,*" i.e. it will not go up for a while yet.

Also, the RBNZ is happily mimicking other central banks (specifically, most developed nations' central banks) in unashamedly expressing satisfaction that a lower official interest rate has led to a lower exchange rate.

Yesterday's MPC announcement gave the NZD and swap rates a slight lift but overnight events reversed the NZD's rise and look set to give swap rates another lift this morning.

## US back in markets' favour

The USD and Treasury yields rose overnight as markets shrugged off the start of the impeachment process against President Trump. Markets seemed to regard the latest shenanigans in Congress as a political speed bump and are more focused on how well the US economy is doing against the rest of the world.

Weak European PMI data earlier this week, the announcement yesterday of a 'trade enhancement agreement' between the US and Japan and a comment yesterday from Donald Trump that a trade deal with China could happen "*sooner than you think*" intensified that positive focus on the US.

The USD made gains yesterday against all major currencies, except for the CAD, resulting in the USD Index rising above 99.0, a level not seen before the start of September since May 2017. The stronger USD pushed the NZD/USD down to 0.6270 and the AUD/USD to 0.6750, wiping out the past few days' gains.

Swap rates should open a little higher this morning on the back of higher Treasury yields.

## Chinese promise to stay calm and carry on

The PBC Governor, Yi Gang, has promised that the PBC will take prudent and incremental policy steps, i.e. it won't make big cuts to banks' Reserve Ratio Requirements, and stated that China's current interest rate levels are considered appropriate.

Yi also assured financial markets that recently identified risks in the shadow banking sector and some key institutions have been resolved and that China's financial risks are contained.

Yi's statement seemed to be designed to counter criticism that Chinese authorities, specifically the central bank, have not been proactive enough in easing monetary policy in the face of slowing Chinese manufacturing activity and economic growth. Yi's speech also takes the spotlight away from the yuan.

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