



MARKET ALERT

Monday 11 November 2019 | www.bancorptreasury.com

CURRENCIES	Spot	6mths
NZD/USD	0.6330	0.0020
NZD/AUD	0.9222	-0.0010
NZD/JPY	69.16	-0.56
NZD/EUR	0.5741	-0.0050
NZD/GBP	0.4948	-0.0009
NZD/CNH	4.4247	0.0347
AUD/USD	0.6863	0.0029
AUD/EUR	0.6226	-0.0047
EUR/USD	1.1024	0.0132
USD/CNH	6.9912	0.0327
GBP/USD	1.2788	0.0065
EUR/GBP	0.8621	0.0059

INT RATES	NZ	Australia
OCR/Cash	1.00%	0.75%
90 day bills	1.15%	0.93%
2 year swap	1.06%	0.88%
10 year Govt	1.38%	1.29%

Trade worries drive markets again

Divergent views on the progress on US/China trade talks sent markets one way and then the other over the weekend. Firstly, comments from China that tariff relief on both sides would be part of the Phase 1 deal, gave cause for hope and improved market risk sentiment. That gave some support to the NZD and AUD although the support was only enough to halt their RBA-induced decline.

Donald Trump countered over the weekend, stating that *“I haven’t agreed to*

anything” and *“they want to make a deal. Frankly, they want to make a deal a lot more than I do.”* Trump’s comments caused US stockmarkets to fall and the USD to rise although Treasury yields merely halted their rise.

The stronger USD after Trump’s comments pushed the NZD/USD to 0.6330 before it found support. The AUD/USD fared just as badly, falling to 0.6850 before it found support, which kept the NZD/AUD anchored to 0.9230. Both NZD/USD and AUD/USD look vulnerable to test recent lows if US/China trade talks fail to progress.

The 10 year Treasury yield closed Friday at 1.94%, its highest close since 31 July. Expect local swap rates to open higher a few bps higher today.

RBA optimism meets market pessimism

The RBA released its quarterly *Statement on Monetary Policy* on Friday. The opening sentence said it all — *“the Australian economy is gradually coming out of a soft patch.”* Why? Because of the support from *“the low level of interest rates, recent tax cuts, ongoing spending on infrastructure, the upswing in housing prices in some markets and a brighter outlook for the resources sector.”*

The RBA updated its forecasts, slightly lowering those for GDP and inflation although they still imply *“progress towards the medium term inflation and full*

employment goals.” Also, the RBA sees that *“global financial markets appear to have passed a trough of pessimism.”*

The RBA’s assessments and assumptions are not those of a central bank ready to ease further. Rather, they reflect a central bank with an assertive ‘wait and see’ stance. Markets, for whom sideways is not an alternative, took note of the RBA’s downgraded growth and inflation forecasts and sold the AUD.

India’s credit rating under threat

Moody’s has downgraded its outlook for India’s Baa2 credit rating (equivalent to BBB from S&P) from stable to negative, which is the usual precursor to a downgrade. A single notch downgrade will keep India’s rating as investment grade. A double notch downgrade will drop India into ‘junk’ status.

Why is Moody’s announcement significant? Moody’s acted because *“while government measures to support the economy should help to reduce the depth and duration of India’s growth slowdown, prolonged financial stress among rural households, weak job creation, and, more recently, a credit crunch among non-bank financial institutions, have increased the probability of a more entrenched slowdown.”*

Replace India with China in the previous sentence and you have an equally valid and worrying observation on China.

**BANCORP**

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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	70.05					CAD 0.8369	0.9074
NZD/USD	0.6330	0.0004	0.0010	0.0020	0.0037	CHF 0.6312	0.6844
NZD/AUD	0.9222	-0.0002	-0.0006	-0.0010	-0.0017	CNY 4.4280	4.8015
NZD/JPY	69.16	-0.08	-0.30	-0.56	-1.10	DKK 4.2910	4.6529
NZD/EUR	0.5741	-0.0008	-0.0027	-0.0050	-0.0098	FJD 1.3822	1.4988
NZD/GBP	0.4948	-0.0001	-0.0006	-0.0009	-0.0020	HKD 4.9563	5.3744
						KRW 733.41	795.28
AU TWI	59.60					MYR 2.6303	2.8521
AUD/USD	0.6863	0.0005	0.0016	0.0029	0.0052	NOK 5.7855	6.2735
AUD/NZD	1.0844	0.0002	0.0007	0.0012	0.0020	SEK 6.1311	6.6483
AUD/JPY	74.94	-0.07	-0.28	-0.53	-1.06	SGD 0.8604	0.9329
AUD/EUR	0.6226	-0.0007	-0.0025	-0.0047	-0.0095	TWD 19.24	20.87
AUD/GBP	0.5367	-0.0001	-0.0004	-0.0004	-0.0012	ZAR 9.4022	10.1954
USD Index	98.35						
EUR/USD	1.1024	0.0021	0.0069	0.0132	0.0257	EQUITIES	
USD/JPY	109.20	-0.18	-0.65	-1.23	-2.36		Index
GBP/USD	1.2788	0.0011	0.0038	0.0065	0.0126	NZX50	10,877
EUR/GBP	0.8621	0.0009	0.0029	0.0059	0.0114	ASX200	6,724
						Dow Jones	27,681
						S&P 500	3,093
						FTSE100	7,359
						DAX 30	13,229
						Nikkei	23,392
						COMMODITIES	
							USD
						Dubai Light	60.32
						Brent Crude	62.51
						Gold	1,458.72
						Silver	16.79
						CRB Index	191.42
INTEREST RATES		New Zealand		Australia			
		Borrow	Invest	Borrow	Invest		
30 day bank bills		1.16%	1.12%	0.90%	0.88%		
90 day bank bills		1.17%	1.13%	0.95%	0.91%		
FRA 90d in 3mths		1.05%	1.02%	0.86%	0.81%		
FRA 180d in 6mths		1.02%	0.99%	0.92%	0.88%		
1 year swap*		1.07%	1.04%	0.89%	0.87%		
2 year swap*		1.07%	1.04%	0.89%	0.88%		
3 year swap*		1.10%	1.07%	0.93%	0.92%		
5 year swap*		1.21%	1.18%	1.15%	1.14%		
10 year swap*		1.55%	1.52%	1.47%	1.44%		
10 year Govt bond			1.36%		1.29%		

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

SOURCE: Bloomberg

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