

**BANCORP**

BANCORP TREASURY SERVICES LIMITED

MARKET ALERT

Wednesday 15 January 2020 | www.bancorptreasury.com

CURRENCIES	Spot	6mths
NZD/USD	0.6618	0.0018
NZD/AUD	0.9588	-0.0015
NZD/JPY	72.75	-0.54
NZD/EUR	0.5945	-0.0051
NZD/GBP	0.5079	-0.0014
NZD/CNH	4.5584	0.0356
AUD/USD	0.6902	0.0030
AUD/EUR	0.6200	-0.0043
EUR/USD	1.1132	0.0126
USD/CNH	6.8888	0.0351
GBP/USD	1.3029	0.0072
EUR/GBP	0.8544	0.0049
INT RATES	NZ	Australia
OCR/Cash	1.00%	0.75%
90 day bills	1.27%	0.89%
2 year swap	1.20%	0.78%
10 year Govt	1.51%	1.26%

Improved business confidence

The NZIER Quarterly Survey of Business Opinion's headline measure of business confidence improved in the December quarter although businesses remain pessimistic on balance. The combined view on the general business situation lifted to a net 26% of respondents feeling pessimistic in the December quarter, from a net 35% pessimistic in the September quarter.

Uncertainty remains the driver that's putting the brakes on the business investment and expansion. Profits

remain squeezed but have shown some improvement from the September quarter. Thankfully, there was a notable improvement in both the manufacturing and construction sectors, which is in line with the recent manufacturing PMI data and the pickup in the housing market.

Business reported activity levels were unchanged at a weak level in the December quarter, which suggests that growth momentum is likely to travel sideways in the current quarter. Own activity outlook increased from a net 0% in September to a net 7% positive in December, which hints at a pickup in growth in the first half of this year.

More positive news came from the employment part of the survey as hiring lifted to negative 2% from negative 10% while hiring intentions (for the March quarter) increased to 12%. Investment intentions are still subdued but improved a touch.

Capacity utilisation slipped and fewer firms reported capacity restraints in the December quarter. Pricing intentions rose sharply and prices lifted. These will have the RBNZ relieved as they should translate into higher tradable inflation.

Overall, businesses believe they are in a better position in December than they were in September. This could be explained by the effects the RBNZ's easing in monetary conditions in 2019 flowing through the economy, easing geopolitical tensions (especially between the US and China), and the recent fiscal

spending promise. Yet, headwinds remain, and geopolitical tensions have the power to reverse market sentiment.

US/China trade headlines

Chinese trade data for December outperformed expectations as exports increased 9.0% against an expected 2.9% rise, while imports increased 17.7% against an anticipated 8.6% pick up. What was most significant was that, while volumes were (naturally) lower with the US, these was a significant pick up in cross borders flows with their South East Asian neighbours, such as Vietnam. This was most likely a reflection of importers and exports circumventing US and Chinese trade tariffs.

In addition, after the announcement that the US had withdrawn its designation of China as a currency manipulator, China announced its intention to ramp up purchases of US manufactured goods, including cars, aircrafts and energy supplies, to the value of USD80 billion. Conversely, US data overnight was not quite so impressive as CPI numbers were slightly worse than expected at up 0.2% for December and up 2.3% for the year against an expectation of 0.3% and 2.4%. What was more interesting was the US announcement that it was widening the scope of whom it views as currency manipulators adding Switzerland to a list that now includes Japan, Korea, Germany, Italy, Ireland, Singapore, Malaysia and Vietnam. With friends like these, who needs enemies!



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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	72.64					CAD	0.8639 0.9010
NZD/USD	0.6618	0.0003	0.0009	0.0018	0.0030	CHF	0.6397 0.6672
NZD/AUD	0.9588	-0.0002	-0.0007	-0.0015	-0.0035	CNY	4.5605 4.7564
NZD/JPY	72.75	-0.09	-0.26	-0.54	-1.14	DKK	4.4423 4.6332
NZD/EUR	0.5945	-0.0009	-0.0025	-0.0051	-0.0106	FJD	1.4307 1.4922
NZD/GBP	0.5079	-0.0002	-0.0007	-0.0014	-0.0033	HKD	5.1466 5.3677
						KRW	766.27 799.20
AU TWI	59.30					MYR	2.6966 2.8125
AUD/USD	0.6902	0.0005	0.0015	0.0030	0.0056	NOK	5.8696 6.1218
AUD/NZD	1.0430	0.0002	0.0008	0.0017	0.0038	SEK	6.2562 6.5250
AUD/JPY	75.88	-0.08	-0.22	-0.44	-0.92	SGD	0.8912 0.9294
AUD/EUR	0.6200	-0.0008	-0.0022	-0.0043	-0.0088	TWD	19.80 20.65
AUD/GBP	0.5297	-0.0001	-0.0003	-0.0006	-0.0015	ZAR	9.5324 9.9420
USD Index	97.35						
EUR/USD	1.1132	0.0022	0.0063	0.0126	0.0253		
USD/JPY	109.94	-0.19	-0.55	-1.10	-2.21		
GBP/USD	1.3029	0.0012	0.0036	0.0072	0.0143		
EUR/GBP	0.8544	0.0009	0.0025	0.0049	0.0100		
INTEREST		New Zealand		Australia		EQUITIES	
RATES		Borrow	Invest	Borrow	Invest		Index
30 day bank bills		1.21%	1.17%	0.86%	0.84%	NZX50	11,625
90 day bank bills		1.29%	1.25%	0.91%	0.87%	ASX200	6,962
FRA 90d in 3mths		1.19%	1.16%	0.78%	0.73%	Dow Jones	28,925
FRA 180d in 6mths		1.16%	1.13%	0.84%	0.80%	S&P 500	3,285
1 year swap*		1.20%	1.17%	0.77%	0.76%	FTSE100	7,622
2 year swap*		1.21%	1.19%	0.79%	0.77%	DAX 30	13,456
3 year swap*		1.24%	1.22%	0.84%	0.83%	Nikkei	24,025
5 year swap*		1.34%	1.32%	1.06%	1.05%		
10 year swap*		1.67%	1.65%	1.39%	1.38%		
10 year Govt bond			1.50%		1.26%		
						COMMODITIES	
						USD	
						Dubai Light	64.59
						Brent Crude	64.78
						Gold	1,547.23
						Silver	17.80
						CRB Index	194.90

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

SOURCE: Bloomberg

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