



# MARKET ALERT

Thursday 12 December 2019 | [www.bancorptreasury.com](http://www.bancorptreasury.com)

CURRENCIES	Spot	6mths
NZD/USD	0.6575	0.0017
NZD/AUD	0.9565	-0.0017
NZD/JPY	71.42	-0.63
NZD/EUR	0.5919	-0.0056
NZD/GBP	0.4988	-0.0015
NZD/CNH	4.6220	0.0366
AUD/USD	0.6873	0.0030
AUD/EUR	0.6189	-0.0048
EUR/USD	1.1106	0.0135
USD/CNH	7.0306	0.0378
GBP/USD	1.3183	0.0074
EUR/GBP	0.8425	0.0055

  

INT RATES	NZ	Australia
OCR/Cash	1.00%	0.75%
90 day bills	1.19%	0.89%
2 year swap	1.22%	0.72%
10 year Govt	1.52%	1.15%

## Fed assertively restates its wait and see stance

The FOMC kept its target range for the Fed Funds rate steady (at 1.50%-1.75%), as expected. The most interest was focused on the language of the FOMC’s announcement and forward guidance. The post-meeting statement dropped previous references to external risks and repeated comments from the FOMC and individual members that *“the current stance of monetary policy is appropriate.”*

The new dot plot contained unchanged forecasts for GDP and inflation, marginally lower forecasts for the unemployment rate and a lower

projected path for the Fed Funds rate, although the longer run Fed Funds rate was unchanged at 2.50%. Market responses were muted because there was nothing new and other matters are more pressing.

Markets focus today will be on the UK election and the ECB meeting (the first with Christine Lagarde at the helm). Opinion polls favour a Conservative win, but markets will assess the scale of the majority as it will have significant Brexit implications. Consensus is for the ECB also to hold steady but markets are more concerned about the slowing Eurozone economy and external threats worry the ECB.

## Treasury finds \$12 billion and the government immediately spends it

The Treasury’s latest Half Year Economic and Fiscal Update (“HYEFU”) initially predicted an additional \$12 billion of fiscal surpluses in the next four fiscal years to June 2024. However, before Treasury could publish the HYEFU, Finance Minister, Grant Robertson, intercepted those extra surpluses and allocated them to \$12 billion of extra infrastructure investments with more than half that sum *“for new transport projects, with a significant portion for roads and rail.”*

Increased infrastructure spending was expected, but for a lesser amount, and the government has delivered the fiscal loosening that Adrian Orr is seeking,

which will cement the RBNZ’s ‘on hold’ and ‘wait and see’ stances. After Grant Robertson’s announcement, we saw an initial mild rise for the NZD.

Interest rate markets were slightly more responsive to the overall impact on the government’s borrowing programme. Given that the new (and greater than expected) spending is projected to be funded from higher than previously forecast (and expected) fiscal surpluses, the government’s borrowing programme through to June 2022 is unchanged from that detailed in the May Budget, and net debt is forecast to peak at 21.5%, which allayed market fears of increased government debt in coming years. The net effect on interest rates was close to zero because the smaller than expected government borrowing programme over the next two or so years will offset the inflationary impact from the government’s increased infrastructure spending.

As always, the devil was in the detail. Bank economists assessed Treasury’s underlying economic assumptions and forecasts, and concluded that most were skewed in favour of the government, especially for GDP, bond yields, migration and wages. Those economists’ conclusions caused the NZD to give back its initial gains and more. However, all that domestic influence was overwhelmed by the more dominant offshore push from a weaker USD ahead of the FOMC announcement, which lifted the NZD/USD back up to its recent four month high and held it near there.

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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	72.70					<b>CAD</b>	0.8663 0.9056
NZD/USD	0.6575	0.0003	0.0009	0.0017	0.0027	<b>CHF</b>	0.6475 0.6769
NZD/AUD	0.9565	-0.0002	-0.0007	-0.0017	-0.0041	<b>CNY</b>	4.6272 4.8376
NZD/JPY	71.42	-0.16	-0.34	-0.63	-1.22	<b>DKK</b>	4.4242 4.6254
NZD/EUR	0.5919	-0.0012	-0.0029	-0.0056	-0.0110	<b>FJD</b>	1.4307 1.4958
NZD/GBP	0.4988	-0.0005	-0.0009	-0.0015	-0.0029	<b>HKD</b>	5.1345 5.3680
						<b>KRW</b>	783.40 819.03
AU TWI	59.20					<b>MYR</b>	2.7220 2.8457
AUD/USD	0.6873	0.0005	0.0015	0.0030	0.0057	<b>NOK</b>	6.0090 6.2823
AUD/NZD	1.0455	0.0002	0.0008	0.0019	0.0045	<b>SEK</b>	6.1927 6.4743
AUD/JPY	74.67	-0.15	-0.30	-0.52	-0.96	<b>SGD</b>	0.8930 0.9336
AUD/EUR	0.6189	-0.0011	-0.0026	-0.0048	-0.0089	<b>TWD</b>	20.01 20.92
AUD/GBP	0.5214	-0.0004	-0.0005	-0.0006	-0.0008	<b>ZAR</b>	9.6664 10.1060
USD Index	97.39						
EUR/USD	1.1106	0.0028	0.0070	0.0135	0.0257	<b>EQUITIES</b>	
USD/JPY	108.65	-0.30	-0.66	-1.23	-2.29		<b>Index</b>
GBP/USD	1.3183	0.0019	0.0041	0.0074	0.0131	<b>NZX50</b>	11,292
EUR/GBP	0.8425	0.0009	0.0027	0.0055	0.0110	<b>ASX200</b>	6,753
						<b>Dow Jones</b>	27,881
						<b>S&amp;P 500</b>	3,135
						<b>FTSE100</b>	7,216
						<b>DAX 30</b>	13,147
						<b>Nikkei</b>	23,392
						<b>COMMODITIES</b>	
							<b>USD</b>
						<b>Dubai Light</b>	63.68
						<b>Brent Crude</b>	63.64
						<b>Gold</b>	1,472.10
						<b>Silver</b>	16.83
						<b>CRB Index</b>	191.90

  

INTEREST RATES	New Zealand		Australia	
	Borrow	Invest	Borrow	Invest
30 day bank bills	1.20%	1.16%	0.85%	0.83%
90 day bank bills	1.21%	1.17%	0.91%	0.87%
FRA 90d in 3mths	1.23%	1.16%	0.75%	0.70%
FRA 180d in 6mths	1.19%	1.16%	0.76%	0.72%
1 year swap*	1.21%	1.18%	0.73%	0.72%
2 year swap*	1.23%	1.20%	0.73%	0.71%
3 year swap*	1.26%	1.24%	0.76%	0.76%
5 year swap*	1.36%	1.33%	0.98%	0.98%
10 year swap*	1.68%	1.65%	1.33%	1.32%
10 year Govt bond		1.50%		1.15%

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

SOURCE: Bloomberg

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