



BANCORP

BANCORP TREASURY SERVICES LIMITED

MARKET ALERT

Thursday 27 February 2020 | www.bancorptreasury.com

CURRENCIES	Spot	6mths
NZD/USD	0.6298	0.0009
NZD/AUD	0.9607	-0.0018
NZD/JPY	69.46	-0.54
NZD/EUR	0.5785	-0.0052
NZD/GBP	0.4880	-0.0014
NZD/CNH	4.4269	0.0265
AUD/USD	0.6555	0.0021
AUD/EUR	0.6022	-0.0043
EUR/USD	1.0885	0.0113
USD/CNH	7.0297	0.0324
GBP/USD	1.2905	0.0055
EUR/GBP	0.8435	0.0052
INT RATES	NZ	Australia
OCR/Cash	1.00%	0.75%
90 day bills	1.09%	0.85%
2 year swap	1.00%	0.61%
10 year Govt	1.19%	0.92%

Consolidation

After the extreme moves of the last couple of days, the markets took a breather overnight. Equity markets in Europe closed flat-to-up 1%, and that trait is currently being reflected on US exchanges which are broadly trading up half a percent.

This consolidation has also been reflected in US Treasury and commodity pricing. Treasury yields are unchanged with the 10 year at 1.315% and the 30 year a smidge lower at 1.795%, WTI crude has broken the USD50.00 per barrel level to be trading at USD49.00, while gold has firmed a touch to

USD1,644.00 per ounce. All of these moves can be viewed as a pause within the market gyrations of the past few days as we await further headlines to provide the direction bias. The NZD/USD has eased a touch and is currently trading just under 0.6300.

Interestingly, with all the coronavirus related news coming out of Italy, the French, German, and Italian governments announced overnight that the internal borders within Europe will remain open. Similarly, Brazil, who confirmed its first case — the first case in Latin America — stated that travel restrictions are ‘irrelevant’ in a pandemic! While we can take some comfort that these governments are confident they can control the outbreak, by maintaining freedom of movement it also provides for the possibility of rapid escalation.

Fed speak

Fed voting member, Robert Kaplan, was on the newswires yesterday highlighting that the coronavirus outbreak is “*too fluid*” for the Fed to lower short-term rates, stating “*we are still in the heat of this and there’s just a lot of uncertainty,*” and, “*in the next three or four weeks some of that uncertainty is going to get cleared up, either for better or worse, I think it pays to be patient.*” He also stated, that when it comes to interest rate policy and the coronavirus, “*it’s too soon to make a judgment about how it might relate to monetary policy. I still think we are a*

number of weeks away from being able to make the judgment” adding “*I wouldn’t be inclined to be thinking about any change to monetary policy*” until more clarity arrives. It is worth noting that to date, only the PBoC have lowered rates in response to the outbreak.

Hong Kong economy contracts further

Hong Kong’s recession deepened as its economy shrank by 0.3% in the December quarter, confirming a contraction of 1.2% in 2019. Services exports were the hardest hit, falling 24.7% over the quarter.

As a result, the Hong Kong government unveiled a budget packed with giveaways including a one time cash hand out of HKD10,000 (USD1,284) to each permanent resident of the city aged 18 or older.

Hong Kong is currently the only advanced economy that’s in a technical recession; however, following uncertainties around the coronavirus and other idiosyncratic factors, it is likely that Japan and Italy will follow suit in the March quarter 2020, with potentially others following later in 2020.

Market pricing for rate cuts has increased dramatically worldwide as markets predict monetary policy will step in to cushion the effects of the coronavirus.

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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	70.81					CAD	0.8393 0.8736
NZD/USD	0.6298	0.0002	0.0006	0.0009	0.0010	CHF	0.6150 0.6402
NZD/AUD	0.9607	-0.0004	-0.0009	-0.0018	-0.0036	CNY	4.4224 4.6033
NZD/JPY	69.46	-0.09	-0.27	-0.54	-1.10	DKK	4.3228 4.4996
NZD/EUR	0.5785	-0.0009	-0.0026	-0.0052	-0.0102	FJD	1.3960 1.4531
NZD/GBP	0.4880	-0.0003	-0.0007	-0.0014	-0.0029	HKD	4.9078 5.1086
						KRW	764.86 796.15
AU TWI	57.70					MYR	2.6678 2.7769
AUD/USD	0.6555	0.0004	0.0012	0.0021	0.0036	NOK	5.9183 6.1604
AUD/NZD	1.0409	0.0004	0.0010	0.0020	0.0039	SEK	6.1282 6.3789
AUD/JPY	72.31	-0.07	-0.22	-0.43	-0.87	SGD	0.8802 0.9162
AUD/EUR	0.6022	-0.0008	-0.0022	-0.0043	-0.0084	TWD	19.13 19.91
AUD/GBP	0.5079	-0.0001	-0.0003	-0.0005	-0.0011	ZAR	9.6338 10.0279
USD Index	99.13						
EUR/USD	1.0885	0.0021	0.0059	0.0113	0.0214	EQUITIES	
USD/JPY	110.33	-0.18	-0.53	-1.01	-1.92		Index
GBP/USD	1.2905	0.0011	0.0030	0.0055	0.0099	NZX50	11,534
EUR/GBP	0.8435	0.0009	0.0026	0.0052	0.0100	ASX200	6,708
						Dow Jones	27,016
						S&P 500	3,127
						FTSE100	7,042
						DAX 30	12,775
						Nikkei	22,426
						COMMODITIES	
							USD
						Dubai Light	52.58
						Brent Crude	53.19
						Gold	1,646.65
						Silver	17.95
						CRB Index	176.34

INTEREST RATES	New Zealand		Australia	
	Borrow	Invest	Borrow	Invest
30 day bank bills	1.10%	1.06%	0.80%	0.78%
90 day bank bills	1.11%	1.07%	0.87%	0.83%
FRA 90d in 3mths	1.03%	0.97%	0.68%	0.63%
FRA 180d in 6mths	1.00%	0.97%	0.64%	0.60%
1 year swap*	1.04%	1.00%	0.66%	0.65%
2 year swap*	1.01%	0.98%	0.61%	0.60%
3 year swap*	1.01%	0.98%	0.61%	0.60%
5 year swap*	1.07%	1.03%	0.76%	0.75%
10 year swap*	1.33%	1.29%	1.03%	1.02%
10 year Govt bond		1.17%		0.92%

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

SOURCE: Bloomberg

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