



BANCORP

BANCORP TREASURY SERVICES LIMITED

MARKET ALERT

Friday 18 September 2020 | www.bancorp.co.nz

CURRENCIES	Spot	6mths
NZD/USD	0.6753	-0.0002
NZD/AUD	0.9235	-0.0008
NZD/JPY	70.70	-0.23
NZD/EUR	0.5700	-0.0026
NZD/GBP	0.5206	-0.0008
NZD/CNH	4.5625	0.0534
AUD/USD	0.7314	0.0004
AUD/EUR	0.6173	-0.0023
EUR/USD	1.1849	0.0050
USD/CNH	7.1227	0.0813
GBP/USD	1.2972	0.0016
EUR/GBP	0.9134	0.0027

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.25%
90 day bills	0.30%	0.09%
2 year swap	0.04%	0.12%
10 year Govt	0.55%	0.85%

It's official, we're in a recession!

And when I say recession, it is the worst economic slump since the Great Depression. While the March quarter GDP rate was revised up slightly to -1.4%, the June quarter print headlined at a record -12.2% contraction. The only bit of good news in amongst this was that at least it was better than the 16% drop the Treasury had forecast ... oops, sorry, wrong report!

While the headline number wasn't good, the fact that it is a backward looking indicator and that it was near the pre-release market expectations of -12.5%, meant that the market largely ignored the release and the NZD didn't react.

It was a different story in Australia though, as their employment numbers smashed expectations, with an additional 111,000 workers joining the workforce, which exceeded the forecast 35,000 decline. This saw the unemployment rate fall to 6.8%, when it was expected to lift to 7.7%.

The BoJ, in a move that was expected, maintained its policy rate at -0.1% and it's 10 year government bond target at 0%. The central bank also noted the economy is in a severe state but appears to be picking up, although capex, corporate profits and sentiment continue to worsen. They also acknowledged their CPI print is likely to hover in negative territory.

Finally, overnight the BoE voted unanimously to maintain it's Bank Rate at a record low of 0.10% and its bond-buying programme at GBP745 billion. In a mixed bag of messages, members noted that the domestic economic data had been a little stronger than expected, but the outlook remained mixed due to COVID and Brexit. The BoE also revealed that voting members had been briefed on the Bank's plans to explore how a negative Bank Rate could be implemented.

In amongst the central bank rhetoric of the last 24 hours, markets have been surprisingly subdued. Equity markets globally are broadly down 1-2%, oil has spiked off the OPEC meeting, with crude and Brent up 2.25% and 2.65%, the 10-year US Treasury continues to yield 0.69%, and currencies are steady, with

the NZD/USD at 0.6750 and the AUD/USD at 0.7310.

Are you listening, Mr Orr?

An article published in the *Journal of Behavioural and Experimental Economics*, a great bedtime read, ascertained that negative interest rates are ineffectual and perhaps even counterproductive. By all accounts, the highest positive impact on risk-taking and borrowing behaviour is achieved when rates fall from 1% to 0%.

While it is an interesting discussion, it should be noted that while neither inflation nor growth have rebounded in the Eurozone or Japan after years of negative rates, the Swedish experiment acknowledged that borrowings did rise when rates were negative, although the borrowings ultimately ended up invested in housing, which inflated the property market and household debt.

Yesterday's OPEC meeting saw all members promise to play the game and stick with their quotas. This saw the Saudi energy minister warn oil speculators not to bet against OPEC.

With yesterday's Snowflake IPO a resounding success, another 21 U.S. companies are expected to price their offerings and raise a total of USD10 billion over the next week. So far this calendar year, 11 U.S. companies have floated and seen their share price double on its first day of trading.

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DAILY RATES

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FX	Spot Mid	FECs (mid)				Spot Mid		
		1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	72.54					CAD	0.8887	0.9623
NZD/USD	0.6753	0.0000	-0.0001	-0.0002	0.0003	CHF	0.6134	0.6642
NZD/AUD	0.9235	-0.0001	-0.0004	-0.0008	-0.0001	CNY	4.5680	4.9466
NZD/JPY	70.70	-0.03	-0.11	-0.23	-0.37	DKK	4.2406	4.5921
NZD/EUR	0.5700	-0.0004	-0.0012	-0.0026	-0.0044	FJD	1.4255	1.5437
NZD/GBP	0.5206	-0.0001	-0.0003	-0.0008	-0.0009	HKD	5.2337	5.6675
						KRW	790.25	855.76
AU TWI	61.90					MYR	2.7822	3.0128
AUD/USD	0.7314	0.0001	0.0002	0.0004	0.0004	NOK	6.1107	6.6173
AUD/NZD	1.0829	0.0002	0.0005	0.0009	0.0001	SEK	5.9256	6.4168
AUD/JPY	76.57	-0.03	-0.08	-0.19	-0.39	SGD	0.9165	0.9924
AUD/EUR	0.6173	-0.0004	-0.0010	-0.0023	-0.0047	TWD	19.74	21.37
AUD/GBP	0.5638	0.0000	-0.0001	-0.0004	-0.0010	ZAR	10.9287	11.8346
USD Index	92.89							
EUR/USD	1.1849	0.0008	0.0023	0.0050	0.0098	EQUITIES		
USD/JPY	104.70	-0.04	-0.14	-0.31	-0.60		Index	
GBP/USD	1.2972	0.0002	0.0006	0.0016	0.0030	NZX50	11,777	
EUR/GBP	0.9134	0.0004	0.0013	0.0027	0.0055	ASX200	5,883	
						Dow Jones	27,898	
						S&P 500	3,347	
						FTSE100	6,050	
						DAX 30	13,208	
						Nikkei	23,319	
						COMMODITIES		
							USD	
						Dubai Light	40.66	
						Brent Crude	43.33	
						Gold	1,947.27	
						Silver	27.06	
						CRB Index	160.17	

INTEREST RATES	New Zealand		Australia	
	Borrow	Invest	Borrow	Invest
30 day bank bills	0.30%	0.26%	0.09%	0.09%
90 day bank bills	0.32%	0.28%	0.11%	0.07%
FRA 90d in 3mths	0.28%	0.25%	0.12%	0.07%
FRA 180d in 6mths	-0.04%	-0.06%	0.13%	0.09%
1 year swap*	0.14%	0.11%	0.10%	0.08%
2 year swap*	0.05%	0.02%	0.12%	0.11%
3 year swap*	0.06%	0.03%	0.16%	0.14%
5 year swap*	0.14%	0.11%	0.32%	0.31%
10 year swap*	0.55%	0.52%	0.80%	0.79%
10 year Govt bond		0.53%		0.85%

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

SOURCE: Bloomberg

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