



BANCORP

BANCORP TREASURY SERVICES LIMITED

# MARKET ALERT

Thursday 15 October 2020 | [www.bancorp.co.nz](http://www.bancorp.co.nz)

| CURRENCIES | Spot   | 6mths   |
|------------|--------|---------|
| NZD/USD    | 0.6658 | -0.0001 |
| NZD/AUD    | 0.9294 | -0.0007 |
| NZD/JPY    | 69.98  | -0.19   |
| NZD/EUR    | 0.5666 | -0.0024 |
| NZD/GBP    | 0.5113 | -0.0006 |
| NZD/CNH    | 4.4717 | 0.0600  |
| AUD/USD    | 0.7164 | 0.0004  |
| AUD/EUR    | 0.6097 | -0.0021 |
| EUR/USD    | 1.1750 | 0.0049  |
| USD/CNH    | 7.1227 | 0.0908  |
| GBP/USD    | 1.3022 | 0.0013  |
| EUR/GBP    | 0.9023 | 0.0028  |

  

| INT RATES    | NZ    | Australia |
|--------------|-------|-----------|
| OCR/Cash     | 0.25% | 0.25%     |
| 90 day bills | 0.27% | 0.08%     |
| 2 year swap  | 0.06% | 0.10%     |
| 10 year Govt | 0.58% | 0.84%     |

## Stimulus hopes implode

Stocks dropped after Treasury Secretary, Steven Mnuchin, shot down the possibility of a stimulus deal before the election stating *“at this point, getting something done before the election and executing on that would be difficult.”*

A handful of the big US banks have posted results. Wells Fargo tumbled 5% after posting a profit slump and warned that net interest income could *“get a little bit softer”* in 2021.

Bank of America slid amid an increase in trading revenue that was just a fraction of its competitors' gains, while

Goldman Sachs outperformed after posting a surge in fixed-income revenue that pushed earnings per share to a record.

Globally, equity markets are modestly in the red, down 0.0%-1.0%. The yield on 10-year US treasuries fell one basis point to 0.72% while Germany's 10-year yield dipped two basis points to -0.58% (yes, that is a negative number).

The NZD/USD and AUD/USD have been stable at 0.6655 and 0.7160, while the NZD/AUD is hovering at 0.9295

Fed Vice Chair, Richard Clarida, announced it will be, *“perhaps another year before US GDP reaches its pre-pandemic peak,”* although Richmond Fed President, Tom Barkin, warned *“unemployment, adjusted for the drop in participation, is around 11%. (The) downtrend in participation by prime-age women may limit the rebound.”*

US producer prices rose 0.4% on the year, its first rise in 6 months, while the Eurozone's industrial output rose by 0.7% in August following on from July's upward revision to 5.0%

France has declared a public health state of emergency from this Saturday and imposed curfew's in major cities.

## Currency play

China's Japanese Government Bond (“JGB”) buying is at its highest level in more than 3 years. Given the negative

JGB yields, and the fact they are less negative than other government yield curves, this conceivably may be a play to weaken the yuan. As a side effect, this will increase the JPY ... but just imagine if China started purchasing our negative bonds!

China's President Xi confirmed China will stick with the *“one country, two systems”* principle for the integration of the Chinese mainland with HK and Macao to boost each other's growth.

You don't say ... Australian Treasurer, Josh Frydenberg, announced the relationship with China can be challenging at times.

RBNZ Assistant Governor, Christian Hawkesby, was on the newswires again although there was nothing new. *“There is still a lot of uncertainty about the economy,” “global risks are still to the downside”* and *“a lower NZD exchange rate could provide further stimulus if interest rates go negative.”* He then added *“the funding-for-lending programme will be around the official cash rate,” “the more ‘conditionality’ you put on funding-for-lending programme — the less they get taken up”* and *“talking about negative interest rates is a ‘not a game of bluff’ for us.”*

Australia's October Institute index of consumer sentiment printed at 105, popping back into net optimism and a 27 month high. It was the first optimistic result since June 2019.

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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    | 71.67  |            |         |         |         | CAD                | 0.8756       | 0.9421  |
| NZD/USD   | 0.6658 | 0.0000     | 0.0000  | -0.0001 | 0.0006  | CHF                | 0.6079       | 0.6541  |
| NZD/AUD   | 0.9294 | -0.0001    | -0.0004 | -0.0007 | 0.0000  | CNY                | 4.4705       | 4.8101  |
| NZD/JPY   | 69.98  | -0.02      | -0.09   | -0.19   | -0.31   | DKK                | 4.2174       | 4.5377  |
| NZD/EUR   | 0.5666 | -0.0004    | -0.0013 | -0.0024 | -0.0042 | FJD                | 1.4126       | 1.5199  |
| NZD/GBP   | 0.5113 | -0.0001    | -0.0003 | -0.0006 | -0.0005 | HKD                | 5.1595       | 5.5514  |
|           |        |            |         |         |         | KRW                | 764.18       | 822.22  |
| AU TWI    | 60.80  |            |         |         |         | MYR                | 2.7650       | 2.9750  |
| AUD/USD   | 0.7164 | 0.0001     | 0.0003  | 0.0004  | 0.0006  | NOK                | 6.1484       | 6.6154  |
| AUD/NZD   | 1.0760 | 0.0001     | 0.0004  | 0.0008  | 0.0000  | SEK                | 5.8810       | 6.3277  |
| AUD/JPY   | 75.30  | -0.02      | -0.07   | -0.15   | -0.34   | SGD                | 0.9036       | 0.9722  |
| AUD/EUR   | 0.6097 | -0.0003    | -0.0012 | -0.0021 | -0.0045 | TWD                | 19.16        | 20.62   |
| AUD/GBP   | 0.5501 | 0.0000     | -0.0002 | -0.0002 | -0.0006 | ZAR                | 11.0117      | 11.8481 |
| USD Index | 93.41  |            |         |         |         |                    |              |         |
| EUR/USD   | 1.1750 | 0.0008     | 0.0026  | 0.0049  | 0.0098  | <b>EQUITIES</b>    |              |         |
| USD/JPY   | 105.12 | -0.04      | -0.14   | -0.27   | -0.56   |                    | <b>Index</b> |         |
| GBP/USD   | 1.3022 | 0.0002     | 0.0008  | 0.0013  | 0.0026  | NZX50              | 12,544       |         |
| EUR/GBP   | 0.9023 | 0.0005     | 0.0015  | 0.0028  | 0.0057  | ASX200             | 6,179        |         |
|           |        |            |         |         |         | Dow Jones          | 28,512       |         |
|           |        |            |         |         |         | S&P 500            | 3,482        |         |
|           |        |            |         |         |         | FTSE100            | 5,935        |         |
|           |        |            |         |         |         | DAX 30             | 13,028       |         |
|           |        |            |         |         |         | Nikkei             | 23,627       |         |
|           |        |            |         |         |         |                    |              |         |
|           |        |            |         |         |         | <b>COMMODITIES</b> |              |         |
|           |        |            |         |         |         |                    | <b>USD</b>   |         |
|           |        |            |         |         |         | Dubai Light        | 40.46        |         |
|           |        |            |         |         |         | Brent Crude        | 43.32        |         |
|           |        |            |         |         |         | Gold               | 1,902.42     |         |
|           |        |            |         |         |         | Silver             | 24.25        |         |
|           |        |            |         |         |         | CRB Index          | 160.96       |         |

  

| INTEREST RATES    | New Zealand |        | Australia |        |
|-------------------|-------------|--------|-----------|--------|
|                   | Borrow      | Invest | Borrow    | Invest |
| 30 day bank bills | 0.29%       | 0.25%  | 0.09%     | 0.09%  |
| 90 day bank bills | 0.29%       | 0.25%  | 0.10%     | 0.06%  |
| FRA 90d in 3mths  | 0.22%       | 0.17%  | 0.10%     | 0.05%  |
| FRA 180d in 6mths | -0.02%      | -0.04% | 0.10%     | 0.06%  |
| 1 year swap*      | 0.12%       | 0.09%  | 0.08%     | 0.07%  |
| 2 year swap*      | 0.08%       | 0.05%  | 0.11%     | 0.09%  |
| 3 year swap*      | 0.07%       | 0.05%  | 0.14%     | 0.12%  |
| 5 year swap*      | 0.14%       | 0.11%  | 0.28%     | 0.27%  |
| 10 year swap*     | 0.52%       | 0.49%  | 0.76%     | 0.75%  |
| 10 year Govt bond |             | 0.56%  |           | 0.84%  |

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

SOURCE: Bloomberg

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