



MARKET ALERT

Friday 16 October 2020 | www.bancorp.co.nz

CURRENCIES	Spot	6mths
NZD/USD	0.6595	0.0000
NZD/AUD	0.9299	-0.0006
NZD/JPY	69.55	-0.18
NZD/EUR	0.5638	-0.0023
NZD/GBP	0.5114	-0.0005
NZD/CNH	4.4254	0.0592
AUD/USD	0.7092	0.0005
AUD/EUR	0.6062	-0.0021
EUR/USD	1.1698	0.0048
USD/CNH	7.1227	0.0899
GBP/USD	1.2895	0.0013
EUR/GBP	0.9071	0.0028

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.25%
90 day bills	0.27%	0.08%
2 year swap	0.04%	0.09%
10 year Govt	0.54%	0.77%

Looming RBA rate cut

RBA Governor, Philip Lowe, was particularly dovish in a speech yesterday, stating *“as the economy opens up, it is reasonable to expect that further monetary easing would get more traction than was the case earlier.”*

This has essentially set the market up for a 0.15% rate cut to 0.10% at the November meeting, with the expectation that interest rates will remain there for some time as *“the Board will not be increasing the cash rate until actual inflation is sustainably within the target range.”*

Note that this point incorporates waiting until inflation has hit, and remained, within the RBA’s target range.

The other key driver for the RBA is the unemployment rate, with the comment *“addressing the high rate of unemployment as an important national priority,”* so they will have been pleased with their numbers yesterday, which saw employment ‘only’ fall 29,500 in September, less than the forecast 40,000 reduction. This saw the unemployment rate increase to 6.9%, up marginally from August’s 6.8% but still better than the forecast 7.0%.

The AUD weakened further, hitting a low of 0.7056 overnight, while the Australian swap curve flattened.

US jobless claims rose by 898,000 to hit its highest level in almost two months. Market forecasts were for 825,000.

The higher jobless claims added to concerns about the US recovery, a day after Treasury Secretary, Steven Mnuchin, said that getting a deal on further stimulus before the US election would be unlikely. This saw global bourses trade in the red, with the DAX and CAC the worst performers.

The NZD followed the AUD lower, the NZD/USD trading at 0.6595 and the AUD/USD at 0.7095 currently. The NZD/AUD briefly spiked to 0.9340 before retreating back below 0.9300.

Dallas Federal Reserve President, Robert Kaplan, announced that,

“keeping rates at zero is necessary during a pandemic, but over a long time (it) could push people to take more risk.” Hmmmm ... I think we’re already seeing that!

Brexit soap opera

According to *The Times*, UK Prime Minister, Boris Johnson’s, chief Brexit negotiator will tell the PM not to walk out of trade talks. He said it’s much better to run! And speaking of Brexit, the chief negotiators have been talking, and essentially blaming each other! Needless to say, this soap opera has a lot longer to run after it was agreed talks would be extended for ‘a few weeks.’

The Deputy BoE Governor, Sir Jon Cunliffe, raised a great question when he stated *“the BOE needs to find a better way to provide liquidity than adding to balance sheet.”*

ECB President, Christine Lagarde, stated the ECB has an arsenal of economic stimulus on standby amid an upsurge of COVID cases in Europe, poetically stating *“(Of) the many weapons that we have available, ranging from interest rates to forward guidance and asset purchase programs, we stand ready.”* Expect more EU stimulus soon.

Chinese data disappointed markets as CPI hit 1.7% for the year (expected 1.9%) and PPI contracted 2.1% (expected -1.8). This will likely see the PBoC maintain its policy easing stance for the foreseeable future.

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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	71.25					CAD	0.8718	0.9375
NZD/USD	0.6595	0.0000	0.0000	0.0000	0.0008	CHF	0.6034	0.6489
NZD/AUD	0.9299	-0.0001	-0.0003	-0.0006	0.0001	CNY	4.4349	4.7692
NZD/JPY	69.55	-0.02	-0.09	-0.18	-0.29	DKK	4.1958	4.5120
NZD/EUR	0.5638	-0.0004	-0.0012	-0.0023	-0.0040	FJD	1.4041	1.5100
NZD/GBP	0.5114	-0.0001	-0.0003	-0.0005	-0.0004	HKD	5.1105	5.4958
						KRW	755.58	812.54
AU TWI	60.40					MYR	2.7401	2.9466
AUD/USD	0.7092	0.0001	0.0003	0.0005	0.0008	NOK	6.1727	6.6380
AUD/NZD	1.0754	0.0001	0.0004	0.0007	-0.0002	SEK	5.8527	6.2938
AUD/JPY	74.80	-0.02	-0.07	-0.14	-0.32	SGD	0.8972	0.9648
AUD/EUR	0.6062	-0.0003	-0.0011	-0.0021	-0.0044	TWD	19.02	20.45
AUD/GBP	0.5499	0.0000	-0.0001	-0.0002	-0.0005	ZAR	10.9796	11.8072
USD Index	93.85							
EUR/USD	1.1698	0.0008	0.0025	0.0048	0.0097	EQUITIES		
USD/JPY	105.48	-0.04	-0.13	-0.27	-0.56		Index	
GBP/USD	1.2895	0.0002	0.0008	0.0013	0.0026	NZX50	12,487	
EUR/GBP	0.9071	0.0005	0.0014	0.0028	0.0057	ASX200	6,210	
						Dow Jones	28,499	
						S&P 500	3,475	
						FTSE100	5,833	
						DAX 30	12,704	
						Nikkei	23,507	
						COMMODITIES		
							USD	
						Dubai Light	40.53	
						Brent Crude	43.10	
						Gold	1,905.48	
						Silver	24.19	
						CRB Index	161.20	

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%	0.19%	0.09%	0.04%
FRA 180d in 6mths	-0.04%	-0.06%	0.09%	0.05%
1 year swap*	0.11%	0.07%	0.08%	0.06%
2 year swap*	0.06%	0.03%	0.10%	0.09%
3 year swap*	0.05%	0.02%	0.12%	0.11%
5 year swap*	0.12%	0.09%	0.25%	0.24%
10 year swap*	0.49%	0.46%	0.70%	0.69%
10 year Govt bond		0.53%		0.77%

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

SOURCE: Bloomberg

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