



BANCORP

BANCORP TREASURY SERVICES LIMITED

MARKET ALERT

Tuesday 18 February 2020 | www.bancorptreasury.com

CURRENCIES	Spot	6mths
NZD/USD	0.6439	0.0012
NZD/AUD	0.9585	-0.0014
NZD/JPY	70.78	-0.55
NZD/EUR	0.5944	-0.0053
NZD/GBP	0.4949	-0.0014
NZD/CNH	4.4963	0.0268
AUD/USD	0.6718	0.0022
AUD/EUR	0.6201	-0.0047
EUR/USD	1.0833	0.0118
USD/CNH	6.9833	0.0285
GBP/USD	1.3009	0.0061
EUR/GBP	0.8327	0.0052

INT RATES	NZ	Australia
OCR/Cash	1.00%	0.75%
90 day bills	1.19%	0.91%
2 year swap	1.12%	0.74%
10 year Govt	1.35%	1.05%

US takes out liquidity

With the US markets being closed overnight due to a public holiday, the financial markets globally lacked direction with liquidity at a premium.

As an example, over the last 24 hours the NZD/USD has had a 24 pip trading range and is a touch lower at 0.6438 from when we went home last night.

Similarly, the EUR/USD traded across an even smaller 22 pip range. Without US equity markets driving direction, it would seem the rest of the world thought it would be an ideal time to take a pause.

Japanese economy contracts

The Japanese economy could find itself in a technical recession in the March quarter after posting poor results toward the end of 2019; clearly the recent sales tax hike and the coronavirus outbreak has put more pressure on growth than the BOJ anticipated.

Japanese GDP fell 1.4% in the December quarter, or an annualised fall of 6.3%. The contraction exceeded market expectations of a 0.9% decrease during the quarter, or 3.8% annualised. Reasons for the contraction include the adverse effects from the sales tax hike, weak global demand and typhoon disruption. This has been the biggest contraction since June 2014, when the last sales tax hike was implemented, and the fourth largest in the metric's history.

The data showed private consumption dived by an annualised 11.0% in the quarter, as households slashed spending on cars, cosmetics and domestic appliances. In 2014, the hit to private consumption was 18.0% annualised. Businesses also scaled back their investment by 14.0%, preferring to wait for signs of a recovery from the tax shock before committing to further capex.

While the US/China partial trade deal toward the end of 2019 painted a more optimistic future for the Japanese economy, the unexpected coronavirus epidemic has made it all but certain the country will enter a technical recession in the March 2020 quarter.

The USD/JPY or the NZD/JPY didn't budge on the announcement of the contraction, trading around 109.8 and 70.6 respectively, and currently remain near those levels.

NZ economic update

New Zealand Prime Minister, Jacinda Ardern, decided it was about time she gave her views on the economy after announcing a NZD11 million package to support the tourism industry, stating that the economy will continue to grow this year after absorbing a coronavirus shock in the first half. *"Treasury expects activity to return to normal as global growth picks up and supply conditions normalise in the second half of 2020,"* she said. *"Ultimately GDP growth is expected therefore to be around 2.0% to 2.5% in 2020."*

Although China's central bank, has a slightly different take on the coronavirus effect as they cut their one-year medium term lending facility rate from 3.25% to 3.15% yesterday.

The central bank also injected additional liquidity into the market with CNY200 billion (NZD44 billion) via the medium term lending facility and CNY100 billion (NZD22 billion) via the 7 day repo facility. There is also speculation that the PBoC could lower the benchmark Loan Prime Rate on Thursday.

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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	71.73					CAD 0.8521	0.8889
NZD/USD	0.6439	0.0002	0.0006	0.0012	0.0019	CHF 0.6317	0.6591
NZD/AUD	0.9585	-0.0002	-0.0006	-0.0014	-0.0030	CNY 4.4949	4.6895
NZD/JPY	70.78	-0.08	-0.28	-0.55	-1.14	DKK 4.4401	4.6323
NZD/EUR	0.5944	-0.0009	-0.0027	-0.0053	-0.0108	FJD 1.4146	1.4759
NZD/GBP	0.4949	-0.0002	-0.0007	-0.0014	-0.0029	HKD 5.0016	5.2182
						KRW 762.32	795.32
AU TWI	58.50					MYR 2.6654	2.7808
AUD/USD	0.6718	0.0004	0.0011	0.0022	0.0041	NOK 5.9533	6.2111
AUD/NZD	1.0433	0.0002	0.0007	0.0015	0.0032	SEK 6.2442	6.5145
AUD/JPY	73.85	-0.07	-0.24	-0.47	-0.96	SGD 0.8944	0.9331
AUD/EUR	0.6201	-0.0008	-0.0024	-0.0047	-0.0094	TWD 19.33	20.17
AUD/GBP	0.5164	-0.0001	-0.0004	-0.0007	-0.0014	ZAR 9.6522	10.0701
USD Index	99.19						
EUR/USD	1.0833	0.0019	0.0059	0.0118	0.0234	EQUITIES	
USD/JPY	109.94	-0.17	-0.54	-1.07	-2.08		Index
GBP/USD	1.3009	0.0010	0.0031	0.0061	0.0116	NZX50	11,874
EUR/GBP	0.8327	0.0008	0.0026	0.0052	0.0105	ASX200	7,125
						Dow Jones	29,398
						S&P 500	3,380
						FTSE100	7,433
						DAX 30	13,784
						Nikkei	23,523
						COMMODITIES	
							USD
						Dubai Light	55.70
						Brent Crude	57.62
						Gold	1,580.70
						Silver	17.74
						CRB Index	183.41

INTEREST RATES	New Zealand		Australia	
	Borrow	Invest	Borrow	Invest
30 day bank bills	1.15%	1.11%	0.82%	0.80%
90 day bank bills	1.21%	1.17%	0.93%	0.89%
FRA 90d in 3mths	1.14%	1.11%	0.81%	0.76%
FRA 180d in 6mths	1.15%	1.12%	0.80%	0.76%
1 year swap*	1.14%	1.12%	0.78%	0.77%
2 year swap*	1.13%	1.11%	0.75%	0.74%
3 year swap*	1.15%	1.12%	0.75%	0.74%
5 year swap*	1.22%	1.19%	0.91%	0.90%
10 year swap*	1.51%	1.48%	1.20%	1.19%
10 year Govt bond		1.33%		1.05%

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

SOURCE: Bloomberg

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