



BANCORP

BANCORP TREASURY SERVICES LIMITED

MARKET ALERT

Tuesday 17 March 2020 | www.bancorptreasury.com

CURRENCIES	Spot	6mths
NZD/USD	0.6060	-0.0018
NZD/AUD	0.9895	-0.0019
NZD/JPY	64.45	-0.76
NZD/EUR	0.5432	-0.0059
NZD/GBP	0.4952	-0.0029
NZD/CNH	4.2443	0.0123
AUD/USD	0.6125	-0.0006
AUD/EUR	0.5490	-0.0049
EUR/USD	1.1157	0.0089
USD/CNH	7.0042	0.0412
GBP/USD	1.2238	0.0035
EUR/GBP	0.9117	0.0047

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.50%
90 day bills	0.64%	0.56%
2 year swap	0.63%	0.57%
10 year Govt	1.01%	0.91%

Just another manic Monday

Once more, it's a sea of red and when I say red, I mean it's all red. Central bank stimulus has failed to comfort investors worried about the damage the coronavirus is having on global economies. The S&P500 hit the circuit breaker for the third time in a week and is down around 9.0% at the time of writing, completely erasing Friday's gains, while the market runs deeper into the safe haven assets.

It's clear what the market wants — a large, really, really large, fiscal package that will

offset the pain from closures of schools, restaurants, cinemas and sporting events. Monetary policy is desperate for a friend as it's not going to stimulate demand on its own — New Zealand is releasing its fiscal package at 2.00pm today.

'Social distancing' is now the term of the day as isolation remains the default setting for governments. In the last hour we have seen British Prime Minister, Boris Johnson, address the nation to urge the British people to work from home and to stop going to the pub, we have seen more states in the US limit public and private gatherings, while the Mayor of New York has closed museums, Broadway, and limited restaurants. Canada has also closed its borders to non-citizens although US citizens are exempt 'for the moment'.

The knock-on effects are now irrefutable as the financial toll is starting to hit cashflows. Internationally, airline carriers are calling for state support as they slash capacity and, overnight, the industry body stated most airlines will face bankruptcy by the end of May. Meanwhile, the world's largest brewer, AB InBev, like Boeing and other companies, has drawn down its entire \$9 billion loan facility in a rush to secure and stockpile cash.

Central banks continue to act

Following yesterday's actions, central banks are still working to lower rates and provide liquidity to the wider market.

The Bank of Korea cut its policy rate by 50 basis points to a record low of 0.75% in an unscheduled meeting, while the Fed announced a further, unscheduled, USD500 billion injection into their repo lending operations after the overnight rate rose to 2.00%. Post the injection the rate reverted to 1.00%. The Bank of Canada following on from cutting interest rates 1.00% in March, announced it is broadening its bond-buyback program and adding new term-repo operations. It is also considering purchases of Canadian Mortgage Bonds in the secondary market.

However, there are implications with all this easing. Tumbling interest rates are disrupting the collateralised loan obligations ("CLO's") market which could eventually lead to complications for stakeholders as one in five CLO tranches lacks a floor rate!

Should London Inter Bank Offered Rate ("LIBOR") rates fall into negative territory, the CLO debt holders would owe money back to the issuer. Industry veterans say CLO's are not legally or operationally equipped to handle this reversal in cashflow.

Finally, in unsurprising news, Goldman Sachs predicts the Eurozone will contract sharply in 2020 with Italy contracting 3.4%, German 1.9%, 1.3% in Spain and 0.9% in France.

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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	69.06					CAD	0.8470 0.8560
NZD/USD	0.6060	-0.0003	-0.0009	-0.0018	-0.0031	CHF	0.5746 0.5806
NZD/AUD	0.9895	-0.0004	-0.0011	-0.0019	-0.0027	CNY	4.2376 4.2825
NZD/JPY	64.45	-0.26	-0.49	-0.76	-1.26	DKK	4.0586 4.1016
NZD/EUR	0.5432	-0.0017	-0.0038	-0.0059	-0.0098	FJD	1.3840 1.3987
NZD/GBP	0.4952	-0.0010	-0.0021	-0.0029	-0.0041	HKD	4.7076 4.7576
						KRW	745.57 753.48
AU TWI	54.10					MYR	2.6038 2.6314
AUD/USD	0.6125	-0.0001	-0.0003	-0.0006	-0.0015	NOK	6.2269 6.2930
AUD/NZD	1.0106	0.0004	0.0011	0.0019	0.0028	SEK	5.8993 5.9618
AUD/JPY	65.15	-0.24	-0.42	-0.65	-1.10	SGD	0.8604 0.8695
AUD/EUR	0.5490	-0.0016	-0.0032	-0.0049	-0.0084	TWD	18.30 18.49
AUD/GBP	0.5005	-0.0009	-0.0016	-0.0019	-0.0028	ZAR	10.1114 10.2186
USD Index	98.09						
EUR/USD	1.1157	0.0030	0.0061	0.0089	0.0147	EQUITIES	
USD/JPY	106.38	-0.38	-0.65	-0.94	-1.54		Index
GBP/USD	1.2238	0.0020	0.0033	0.0035	0.0038	NZX50	9,477
EUR/GBP	0.9117	0.0010	0.0025	0.0047	0.0091	ASX200	5,002
						Dow Jones	21,043
						S&P 500	2,475
						FTSE100	5,151
						DAX 30	8,742
						Nikkei	17,002
						COMMODITIES	
							USD
						Dubai Light	30.43
						Brent Crude	30.09
						Gold	1,504.75
						Silver	12.95
						CRB Index	140.88

INTEREST RATES	New Zealand		Australia	
	Borrow	Invest	Borrow	Invest
30 day bank bills	0.45%	0.41%	0.58%	0.56%
90 day bank bills	0.66%	0.62%	0.58%	0.54%
FRA 90d in 3mths	0.68%	0.63%	0.45%	0.40%
FRA 180d in 6mths	0.64%	0.61%	0.59%	0.55%
1 year swap*	0.66%	0.63%	0.50%	0.48%
2 year swap*	0.64%	0.61%	0.58%	0.57%
3 year swap*	0.65%	0.63%	0.63%	0.62%
5 year swap*	0.71%	0.69%	0.89%	0.88%
10 year swap*	0.98%	0.95%	1.17%	1.16%
10 year Govt bond		0.97%		0.91%

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

SOURCE: Bloomberg

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