



BANCORP

BANCORP TREASURY SERVICES LIMITED

MARKET ALERT

Monday 2 March 2020 | www.bancorptreasury.com

CURRENCIES	Spot	6mths
NZD/USD	0.6213	0.0008
NZD/AUD	0.9595	-0.0018
NZD/JPY	66.61	-0.48
NZD/EUR	0.5631	-0.0047
NZD/GBP	0.4856	-0.0012
NZD/CNH	4.3458	0.0263
AUD/USD	0.6474	0.0020
AUD/EUR	0.5868	-0.0038
EUR/USD	1.1034	0.0107
USD/CNH	6.9946	0.0335
GBP/USD	1.2794	0.0048
EUR/GBP	0.8624	0.0051
INT RATES	NZ	Australia
OCR/Cash	1.00%	0.75%
90 day bills	1.05%	0.80%
2 year swap	0.78%	0.46%
10 year Govt	1.06%	0.82%

Risk increases

The markets have taken the shine off the US dollar sending it to a 20 week low against the JPY, which recorded its largest daily gain since May 2017 as investors moved into the currency as a safe-haven gaining 1.5%. The USD index is down on rising expectations of a rate cut of 25 basis points now fully priced in at the March meeting.

In the bond markets, the US 10 year Treasury yield plunged to yet another fresh record low at 1.12% as investors dumped riskier assets and searched for

safer options amid the outbreak.

The 2 year rate slid to 0.874%, its lowest level since November 2016, and the 30 year closed at 1.6775%.

US and global equities were again in the red over the weekend; it was the weekly move that really brought tears to the eye as, for the week, the Dow fell more than 11%, its biggest weekly percentage loss since 2008.

The VIX hit a high of 49.48, its highest level since February 2018. It has risen almost three fold in the past week as traders look to hedge against further tumult. Oil prices also fell further on Friday with Brent crude dropping 3.3% to \$49.99 while WTI fell 4.0% to \$45.21, its lowest level in four years.

Unusually, gold fell; its biggest one-day drop since 2013. This loss was attributed to forced selling aimed at offsetting losses elsewhere and covering so-called margin calls. Not a good sign!

China's in trouble

Manufacturing activity in China plunged in February as the coronavirus took hold, the latest data revealed, while in the US the Fed has signalled interest rates could be cut in response to the "evolving risks" to the economy from the outbreak.

Factory activity in China fell at a record rate in February, as manufacturers closed their operations to contain the

spread of coronavirus. The Chinese Purchasing Manager's Index ("PMI") dropped to 35.7 from 50 in January. The markets expectation was for a fall to 43.

It shows the virus is having a bigger impact than the financial crisis that shook the world last decade.

China makes up a third of world manufacturing and is the world's largest exporter and it will inevitably have a knock-on effect to other countries. A prolonged period without any positive developments could see more economies falling into technical recessions as manufacturing and services sectors slump.

Powell to the rescue

On Friday, Fed Chair, Jerome Powell, suggested that the Fed could cut interest rates in the wake of the coronavirus. He stated, they will "act as appropriate" to support the economy in the face of risks posed by the coronavirus outbreak, and that while the US economy remained strong, the virus "posed an evolving risk" and the Fed stood ready to take action if needed. He added, "The Federal Reserve is closely monitoring developments and their implications for the economic outlook. We will use our tools and act as appropriate to support the economy."

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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	69.84					CAD	0.8342 0.8694
NZD/USD	0.6213	0.0002	0.0005	0.0008	0.0009	CHF	0.5985 0.6237
NZD/AUD	0.9595	-0.0004	-0.0009	-0.0018	-0.0037	CNY	4.3690 4.5534
NZD/JPY	66.61	-0.09	-0.24	-0.48	-0.98	DKK	4.2082 4.3858
NZD/EUR	0.5631	-0.0009	-0.0025	-0.0047	-0.0093	FJD	1.3863 1.4448
NZD/GBP	0.4856	-0.0003	-0.0007	-0.0012	-0.0023	HKD	4.8422 5.0465
						KRW	748.23 779.81
AU TWI	57.00					MYR	2.6382 2.7496
AUD/USD	0.6474	0.0005	0.0012	0.0020	0.0034	NOK	5.8980 6.1470
AUD/NZD	1.0422	0.0004	0.0010	0.0019	0.0040	SEK	5.9706 6.2226
AUD/JPY	69.41	-0.07	-0.19	-0.38	-0.76	SGD	0.8657 0.9022
AUD/EUR	0.5868	-0.0007	-0.0020	-0.0038	-0.0074	TWD	18.92 19.72
AUD/GBP	0.5060	-0.0001	-0.0003	-0.0003	-0.0004	ZAR	9.7278 10.1384
USD Index	98.13						
EUR/USD	1.1034	0.0021	0.0058	0.0107	0.0200	EQUITIES	
USD/JPY	107.22	-0.18	-0.48	-0.91	-1.72		Index
GBP/USD	1.2794	0.0011	0.0029	0.0048	0.0078	NZX50	11,261
EUR/GBP	0.8624	0.0009	0.0025	0.0051	0.0103	ASX200	6,441
						Dow Jones	25,409
						S&P 500	2,954
						FTSE100	6,581
						DAX 30	11,890
						Nikkei	21,143
						COMMODITIES	
							USD
						Dubai Light	48.23
						Brent Crude	49.67
						Gold	1,584.77
						Silver	16.65
						CRB Index	169.18

INTEREST RATES	New Zealand		Australia	
	Borrow	Invest	Borrow	Invest
30 day bank bills	1.10%	1.06%	0.79%	0.77%
90 day bank bills	1.07%	1.03%	0.82%	0.78%
FRA 90d in 3mths	0.87%	0.84%	0.43%	0.38%
FRA 180d in 6mths	0.85%	0.82%	0.46%	0.42%
1 year swap*	0.84%	0.82%	0.52%	0.50%
2 year swap*	0.79%	0.77%	0.46%	0.45%
3 year swap*	0.80%	0.77%	0.47%	0.46%
5 year swap*	0.86%	0.83%	0.64%	0.62%
10 year swap*	1.13%	1.11%	0.93%	0.91%
10 year Govt bond		1.04%		0.82%

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

SOURCE: Bloomberg

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