



BANCORP

BANCORP TREASURY SERVICES LIMITED

MARKET ALERT

Wednesday 4 March 2020 | www.bancorptreasury.com

CURRENCIES	Spot	6mths
NZD/USD	0.6295	0.0003
NZD/AUD	0.9539	-0.0013
NZD/JPY	67.34	-0.44
NZD/EUR	0.5624	-0.0042
NZD/GBP	0.4914	-0.0010
NZD/CNH	4.3770	0.0268
AUD/USD	0.6599	0.0012
AUD/EUR	0.5896	-0.0036
EUR/USD	1.1193	0.0089
USD/CNH	6.9530	0.0396
GBP/USD	1.2810	0.0031
EUR/GBP	0.8738	0.0048

INT RATES	NZ	Australia
OCR/Cash	1.00%	0.50%
90 day bills	0.87%	0.59%
2 year swap	0.74%	0.44%
10 year Govt	1.05%	0.79%

Co-ordinated efforts in a race to the bottom

Cuts galore as the Fed cut 50 basis points following on from yesterday's 25 point cut by the RBA. The Fed funds rate range is now 1.00%-1.25% and the Australian cash rate is 0.50%. For the Fed, this was their first intra-meeting cut since the GFC in 2008, and while a lot of market participants were calling for Fed action, nevertheless, it was a stunning action in both the size of the cut and the timing of it.

It came just hours after a conference call between the G7's central bankers and

finance chiefs, where they announced they would *"use all appropriate policy tools to achieve strong, sustainable growth and safeguard against downside risks."*

Mr Powell expanded on this rhetoric later in the session stating, *"(The) G7 statement reflects coordination at a high level, commitment to use all tools"* adding, *"there will be more formal G7 coordination."*

Post the cut, Chairman Powell was on the newswires adding more insight to the move, stating *"My colleagues and I took this action to help the U.S. economy keep strong in the face of new risks to the economic outlook,"* as the *"spread of coronavirus has brought new challenges and risks."* Make no mistake, this is a pre-emptive move and it does make one wonder if there is something that the governments and central bankers of the G7 know that the average man on the street doesn't!

Prior to the G7 meeting, and in a justification for the RBA move, Governor Lowe said global economic growth was expected to be lower in the first half of 2020 because of coronavirus, while it was also having a *"significant effect"* on the domestic economy.

While some have questioned the need for interest rate cuts given that lower rates do little for factories requiring materials from abroad and is unlikely to spur consumers to spend if they face the risk of infection. In cutting interest rates lower it will support consumer and business sentiment, ease financial conditions, and it (should) calm financial markets.

Sell off despite central bank action

Markets see red in a risk off move as fear that the Fed's surprise cut won't be enough to combat the negative economic impact of the coronavirus.

US equities have been sold a further 1-3% despite the shot in the arm and the 10 Year Treasury yield has plummeted 20bps to 0.96% at the time of writing, the first time ever the 10 year Treasury yield has traded below 1.00%.

Gold had its biggest daily gain since the GFC as it soared up to USD 1,640 an ounce on bets that the outlook for the economy won't improve any time soon. West Texas Crude rallied slightly but still trades below USD 50 per barrel.

The NZD and AUD had a bit of a rally against the USD despite the risk off movement. The NZD/USD reached 0.6322 before falling and hovering around 0.6290, while the AUD/USD made bigger gains as it broke above 0.6600, resulting in the NZD/AUD to fall back to 0.9530.

The 1-year forward points between the NZD/USD have gone from 30 pips to negative 1 in the last week, indicating that rates in the US will be equal to or lower than in NZ despite NZ having a lower cash rate. This will likely hold until the RBNZ meeting scheduled for 25 March.

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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	70.11					CAD	0.8418 0.8825
NZD/USD	0.6295	0.0001	0.0002	0.0003	-0.0002	CHF	0.6020 0.6311
NZD/AUD	0.9539	-0.0004	-0.0008	-0.0013	-0.0024	CNY	4.3812 4.5932
NZD/JPY	67.34	-0.09	-0.23	-0.44	-0.89	DKK	4.2028 4.4061
NZD/EUR	0.5624	-0.0008	-0.0021	-0.0042	-0.0084	FJD	1.4006 1.4683
NZD/GBP	0.4914	-0.0003	-0.0006	-0.0010	-0.0020	HKD	4.8910 5.1276
						KRW	746.66 782.78
AU TWI	56.90					MYR	2.6326 2.7599
AUD/USD	0.6599	0.0003	0.0008	0.0012	0.0015	NOK	5.8337 6.1160
AUD/NZD	1.0484	0.0004	0.0008	0.0014	0.0026	SEK	5.9445 6.2321
AUD/JPY	70.59	-0.07	-0.18	-0.37	-0.76	SGD	0.8741 0.9164
AUD/EUR	0.5896	-0.0006	-0.0018	-0.0036	-0.0073	TWD	18.89 19.80
AUD/GBP	0.5152	-0.0001	-0.0002	-0.0003	-0.0008	ZAR	9.7022 10.1716
USD Index	97.14						
EUR/USD	1.1193	0.0018	0.0047	0.0089	0.0166	EQUITIES	
USD/JPY	106.98	-0.16	-0.40	-0.74	-1.39		Index
GBP/USD	1.2810	0.0008	0.0020	0.0031	0.0048	NZX50	11,346
EUR/GBP	0.8738	0.0008	0.0023	0.0048	0.0096	ASX200	6,436
						Dow Jones	25,934
						S&P 500	3,011
						FTSE100	6,718
						DAX 30	11,985
						Nikkei	21,083
						COMMODITIES	
							USD
						Dubai Light	52.00
						Brent Crude	51.63
						Gold	1,645.57
						Silver	17.26
						CRB Index	174.76
INTEREST RATES		New Zealand		Australia			
		Borrow	Invest	Borrow	Invest		
30 day bank bills		1.03%	0.99%	0.61%	0.59%		
90 day bank bills		0.89%	0.85%	0.61%	0.57%		
FRA 90d in 3mths		0.71%	0.68%	0.39%	0.34%		
FRA 180d in 6mths		0.68%	0.68%	0.46%	0.40%		
1 year swap*		0.72%	0.68%	0.44%	0.43%		
2 year swap*		0.76%	0.73%	0.41%	0.40%		
3 year swap*		0.77%	0.74%	0.48%	0.46%		
5 year swap*		0.83%	0.80%	0.65%	0.64%		
10 year swap*		1.13%	1.09%	0.92%	0.91%		
10 year Govt bond			1.03%		0.79%		

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

SOURCE: Bloomberg

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