



BANCORP

BANCORP TREASURY SERVICES LIMITED

# MARKET ALERT

Wednesday 8 April 2020 | www.bancorptreasury.com

CURRENCIES	Spot	6mths
NZD/USD	0.5984	-0.0010
NZD/AUD	0.9674	-0.0018
NZD/JPY	65.11	-0.46
NZD/EUR	0.5488	-0.0039
NZD/GBP	0.4849	-0.0015
NZD/CNH	4.2264	0.0024
AUD/USD	0.6187	0.0001
AUD/EUR	0.5673	-0.0030
EUR/USD	1.0905	0.0060
USD/CNH	7.1227	0.0159
GBP/USD	1.2341	0.0018
EUR/GBP	0.8836	0.0035

  

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.25%
90 day bills	0.47%	0.23%
2 year swap	0.49%	0.33%
10 year Govt	1.38%	0.92%

## Australian banks downgraded

Ratings agency Fitch downgraded the credit ratings of Australia's 'big four' banks on COVID-19 risks to 'A+' from 'AA-'. Most worryingly, their outlook has been graded as negative as well.

The negative outlook implies there remains considerable downside risk to Fitch's current base case assumptions, which could result in a further deterioration of each banks financial profile over the next two years.

The downgrades are said to reflect the significant impact the measures to slow the spread of the coronavirus outbreak will have on each banks' core markets in Australia and NZ, with Fitch expecting

the Australian economy to contract by over 2% this year.

The implications of the downgrade are that the 'big four' will attract a higher funding cost when they raise capital in the domestic and international markets. And while Fitch is ranked third amongst the rating agencies, behind S&P and Moody's, we shouldn't be surprised given that Moody's lowered their outlook for the Australian owned banks to negative from stable last week.

Yesterday, the RBA, unsurprisingly, left interest rates unchanged at their record low of 0.25%, and affirmed its current targeting of the three year bond yield at 0.25%. However, the RBA was quick to warn that the economy will be hit hard by COVID-19 in the second quarter stating, "there is considerable uncertainty about the near-term outlook for the Australian economy ... a very large economic contraction is expected to be recorded in the June quarter and the unemployment rate is expected to increase to its highest level for many years," RBA Governor, Philip Lowe, said in a statement. He added, "the board is committed to doing what it can to support jobs, incomes and businesses as Australia deals with the coronavirus."

Earlier in the day the RBA had released an explainer on the difference between conventional and unconventional monetary policy. While the RBA are using various QE tools already, we do wonder if this is a prelude to an expansion of additional monetary tools

in a similar manner that a certain Mr Orr gave on 10 March.

The RBNZ was also busy yesterday, announcing that it has added NZD3 billion of LGFA debt to its Large Scale Asset Purchase programme (LSAP). This represents 30% of the total LGFA debt, and it increases the LSAP programme to NZD33 billion.

## Market update

Oil maintains its volatile run as the market weighed whether the world's biggest producers will be able to strike a deal that cuts enough output to match demand. Output has fallen automatically in the US due to falling prices, this could pave the way for Saudi and Russia to coordinate cuts at Thursday's OPEC meeting.

Apart from the oil move, markets have broadly consolidated and cemented Monday's gains. The NZD/USD and AUD/USD have firmed to 0.5985 and 0.6190 as the USD index has eased below the 100.00 level. And while the USD remains high, it is notable that President Trump has just commented, "USD has remained very strong." This is significant as it highlights the authorities are watching the dollar, raising the possibility of intervention to weaken the USD.

Overnight we also had the GlobalDairyTrade auction with overall price index rising 1.2%, and the Whole Milk Powder increasing 2.1%.

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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	68.57					CAD	0.8369 0.8651
NZD/USD	0.5984	-0.0002	-0.0005	-0.0010	-0.0018	CHF	0.5798 0.5994
NZD/AUD	0.9674	-0.0004	-0.0011	-0.0018	-0.0029	CNY	4.2165 4.3588
NZD/JPY	65.11	-0.09	-0.24	-0.46	-0.90	DKK	4.0961 4.2344
NZD/EUR	0.5488	-0.0007	-0.0021	-0.0039	-0.0075	FJD	1.3768 1.4233
NZD/GBP	0.4849	-0.0003	-0.0009	-0.0015	-0.0025	HKD	4.6391 4.7957
						KRW	726.60 751.12
AU TWI	54.60					MYR	2.5973 2.6849
AUD/USD	0.6187	0.0001	0.0001	0.0001	0.0000	NOK	6.1427 6.3500
AUD/NZD	1.0338	0.0005	0.0012	0.0019	0.0031	SEK	6.0036 6.2062
AUD/JPY	67.31	-0.06	-0.18	-0.35	-0.73	SGD	0.8518 0.8805
AUD/EUR	0.5673	-0.0005	-0.0015	-0.0030	-0.0060	TWD	18.02 18.63
AUD/GBP	0.5013	-0.0001	-0.0004	-0.0006	-0.0011	ZAR	10.9023 11.2703
USD Index	99.90						
EUR/USD	1.0905	0.0011	0.0032	0.0060	0.0117		
USD/JPY	108.81	-0.12	-0.31	-0.59	-1.17		
GBP/USD	1.2341	0.0004	0.0012	0.0018	0.0026		
EUR/GBP	0.8836	0.0006	0.0017	0.0035	0.0076		
INTEREST RATES	New Zealand		Australia				
	Borrow	Invest	Borrow	Invest			
30 day bank bills	0.36%	0.32%	0.24%	0.22%			
90 day bank bills	0.49%	0.45%	0.25%	0.21%			
FRA 90d in 3mths	0.45%	0.41%	0.30%	0.25%			
FRA 180d in 6mths	0.46%	0.43%	0.36%	0.32%			
1 year swap*	0.47%	0.44%	0.29%	0.28%			
2 year swap*	0.50%	0.47%	0.34%	0.32%			
3 year swap*	0.54%	0.51%	0.38%	0.37%			
5 year swap*	0.66%	0.62%	0.62%	0.60%			
10 year swap*	1.02%	0.98%	1.03%	1.02%			
10 year Govt bond		1.34%		0.92%			

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

EQUITIES	Index
NZX50	9,810
ASX200	5,252
Dow Jones	22,766
S&P 500	2,688
FTSE100	5,704
DAX 30	10,357
Nikkei	18,950

COMMODITIES	USD
Dubai Light	29.18
Brent Crude	32.24
Gold	1,656.23
Silver	15.02
CRB Index	135.84

SOURCE: Bloomberg

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