



BANCORP

BANCORP TREASURY SERVICES LIMITED

MARKET ALERT

Wednesday 13 May 2020 | www.bancorptreasury.com

| CURRENCIES | Spot | 6mths |
|------------|--------|---------|
| NZD/USD | 0.6083 | -0.0005 |
| NZD/AUD | 0.9385 | -0.0008 |
| NZD/JPY | 65.20 | -0.27 |
| NZD/EUR | 0.5606 | -0.0027 |
| NZD/GBP | 0.4954 | -0.0008 |
| NZD/CNH | 4.3220 | 0.0245 |
| AUD/USD | 0.6482 | 0.0000 |
| AUD/EUR | 0.5973 | -0.0023 |
| EUR/USD | 1.0851 | 0.0043 |
| USD/CNH | 7.1227 | 0.0463 |
| GBP/USD | 1.2280 | 0.0009 |
| EUR/GBP | 0.8837 | 0.0029 |

| INT RATES | NZ | Australia |
|--------------|-------|-----------|
| OCR/Cash | 0.25% | 0.25% |
| 90 day bills | 0.27% | 0.09% |
| 2 year swap | 0.18% | 0.16% |
| 10 year Govt | 0.73% | 0.96% |

It's Adrian's day in the spotlight

Today the RBNZ will be releasing its quarterly *Monetary Policy Statement* ("MPS") and announcing any changes to the Official Cash Rate ("OCR"). After the releases, there will be a media conference that will be live streamed at 2:00pm.

While the expectation is that there will be no change to the OCR, and the MPS will make for a particularly depressing read given what has happened over the last 3 months, the attention will mainly be on the Q&A session with journalists afterwards, where, we suspect, a lot of the questioning will focus on the possibility

of negative interest rates and direct monetisation. The Finance Minister has, at least in the short-term, ruled out direct monetisation, but what about negative interest rates and increasing QE? We know that a lot of the local banks will struggle to implement negative rates within their legacy systems, but the RBNZ has asked them to have the capability available by the end of the year. Or, is this merely a bluff to keep the currency under pressure to support our economic rebound?

Overnight the Fed started their secondary market corporate credit facility ("SMCCF") programme. This programme allows for the purchase of US-listed ETFs whose investment objective is to provide an exposure to US investment-grade corporate bonds.

We also had a couple of US data releases with consumer prices falling to their lowest level since 2008, mainly driven by the falling price of gasoline. The headline numbers were -0.8% for the month, providing a 0.3% increase year-on-year. The April budget numbers didn't make for any better reading as April produced a USD738 billion deficit, which compared to a USD160 billion surplus over the corresponding period last year.

All up though, markets spent the overnight session treading water. Equity markets across Europe and the US were broadly down 1%, the USD index was off a touch, firming the NZD/USD and AUD/USD to 0.6090 and 0.6485 respectively, although US treasuries had

a bid tone post the Fed intervention with the 10-year bond easing to 0.68%.

Slightly concerning

In a warning for NZ, while South Korea had been very successful at controlling the spread of the virus, it is now battling a second wave of infections through reopened entertainment venues such as bars and clubs. Similarly, Wuhan plans to test millions over a 10 day period after a small cluster of infections recently emerged.

Yesterday saw the possibility of an Australia/China trade war start to ratchet up after China implemented import bans on four Australian meat companies, with talks circulating that China may also impose tariffs on other Australian agricultural goods such as barley. We suspect this move is in retaliation for Australia supporting the US in pushing for an investigation into the origins and spread of COVID-19.

This comes after Chinese officials raised the possibility of invalidating the Phase 1 US/China trade pact and re-negotiating a new one as, "malicious attacks by the United States have ignited a tsunami of anger." While the political jousting ramps up, the fact that the Chinese have initiated retaliatory action highlights the seriousness and implications of such actions, and just to be on the safe side, can someone please find a gag for a certain Mr Peters!

**BANCORP**

BANCORP TREASURY SERVICES LIMITED

DAILY RATES

Wednesday 13 May 2020 | www.bancorptreasury.com

| FX | Spot | FECs (mid) | | | | Spot Mid | |
|-----------------------|--------|--------------------|---------------|------------------|---------------|--------------------|-----------------|
| | Mid | 1mth | 3mths | 6mths | 12mths | NZD/... | AUD/... |
| NZ TWI | 69.00 | | | | | CAD | 0.8550 0.9110 |
| NZD/USD | 0.6083 | -0.0001 | -0.0003 | -0.0005 | -0.0010 | CHF | 0.5896 0.6283 |
| NZD/AUD | 0.9385 | -0.0002 | -0.0005 | -0.0008 | -0.0012 | CNY | 4.3081 4.5907 |
| NZD/JPY | 65.20 | -0.03 | -0.12 | -0.27 | -0.59 | DKK | 4.1792 4.4533 |
| NZD/EUR | 0.5606 | -0.0004 | -0.0013 | -0.0027 | -0.0056 | FJD | 1.3657 1.4552 |
| NZD/GBP | 0.4954 | -0.0001 | -0.0004 | -0.0008 | -0.0015 | HKD | 4.7145 5.0237 |
| | | | | | | KRW | 746.02 794.95 |
| AU TWI | 57.30 | | | | | MYR | 2.6354 2.8082 |
| AUD/USD | 0.6482 | 0.0000 | 0.0001 | 0.0000 | -0.0002 | NOK | 6.1708 6.5755 |
| AUD/NZD | 1.0656 | 0.0002 | 0.0006 | 0.0009 | 0.0014 | SEK | 5.9400 6.3296 |
| AUD/JPY | 69.48 | -0.02 | -0.09 | -0.22 | -0.54 | SGD | 0.8625 0.9191 |
| AUD/EUR | 0.5973 | -0.0003 | -0.0010 | -0.0023 | -0.0052 | TWD | 18.18 19.38 |
| AUD/GBP | 0.5278 | 0.0000 | -0.0001 | -0.0004 | -0.0010 | ZAR | 11.1825 11.9159 |
| USD Index | 99.96 | | | | | | |
| EUR/USD | 1.0851 | 0.0007 | 0.0021 | 0.0043 | 0.0092 | EQUITIES | |
| USD/JPY | 107.20 | -0.04 | -0.15 | -0.35 | -0.80 | | Index |
| GBP/USD | 1.2280 | 0.0001 | 0.0005 | 0.0009 | 0.0019 | NZX50 | 10,819 |
| EUR/GBP | 0.8837 | 0.0004 | 0.0013 | 0.0029 | 0.0061 | ASX200 | 5,403 |
| | | | | | | Dow Jones | 23,765 |
| | | | | | | S&P 500 | 2,885 |
| | | | | | | FTSE100 | 5,995 |
| | | | | | | DAX 30 | 10,820 |
| | | | | | | Nikkei | 20,366 |
| | | | | | | | |
| | | | | | | COMMODITIES | |
| | | | | | | | USD |
| | | | | | | Dubai Light | 27.07 |
| | | | | | | Brent Crude | 29.97 |
| | | | | | | Gold | 1,701.77 |
| | | | | | | Silver | 15.47 |
| | | | | | | CRB Index | 130.20 |
| | | | | | | | |
| INTEREST RATES | | New Zealand | | Australia | | | |
| | | Borrow | Invest | Borrow | Invest | | |
| 30 day bank bills | | 0.30% | 0.27% | 0.09% | 0.09% | | |
| 90 day bank bills | | 0.29% | 0.26% | 0.11% | 0.07% | | |
| FRA 90d in 3mths | | 0.23% | 0.20% | 0.15% | 0.10% | | |
| FRA 180d in 6mths | | 0.20% | 0.17% | 0.19% | 0.15% | | |
| 1 year swap* | | 0.23% | 0.20% | 0.14% | 0.12% | | |
| 2 year swap* | | 0.19% | 0.17% | 0.17% | 0.16% | | |
| 3 year swap* | | 0.21% | 0.18% | 0.23% | 0.22% | | |
| 5 year swap* | | 0.33% | 0.30% | 0.45% | 0.43% | | |
| 10 year swap* | | 0.74% | 0.71% | 0.92% | 0.88% | | |
| 10 year Govt bond | | | 0.71% | | 0.96% | | |

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

SOURCE: Bloomberg

This document has been prepared by Bancorp Treasury Services Limited ("BTSL"). Whilst all reasonable care has been taken to ensure the facts stated are accurate and the opinions given are fair and reasonable, neither BTSL nor any of its directors, officers or employees shall in any way be responsible for the contents. No liability is assumed by BTSL, its directors, officers or employees for action taken or not taken on the basis of this document.