



BANCORP

BANCORP TREASURY SERVICES LIMITED

MARKET ALERT

Thursday 14 May 2020 | www.bancorptreasury.com

CURRENCIES	Spot	6mths
NZD/USD	0.5994	-0.0006
NZD/AUD	0.9291	-0.0009
NZD/JPY	64.15	-0.27
NZD/EUR	0.5542	-0.0027
NZD/GBP	0.4904	-0.0008
NZD/CNH	4.2630	0.0282
AUD/USD	0.6452	0.0000
AUD/EUR	0.5965	-0.0023
EUR/USD	1.0815	0.0043
USD/CNH	7.1227	0.0537
GBP/USD	1.2224	0.0008
EUR/GBP	0.8848	0.0029

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.25%
90 day bills	0.28%	0.09%
2 year swap	0.11%	0.15%
10 year Govt	0.61%	0.96%

Powell bats down negative rates

Overnight, all eyes were on Fed Chair Powell's speech to the Peterson Institute, and he came out swinging! Highlighting the economic risks posed by COVID-19, he stated that *"the recovery may take some time to gather momentum, and the passage of time can turn liquidity problems into solvency problems,"* before adding, *"additional fiscal support could be costly, but worth it if it helps avoid long-term economic damage and leaves us with a stronger recovery."*

On negative interest rates, he said, *"the committee's view on negative rates really*

has not changed, but for now, it's not something that we're considering. We think we have a good toolkit, and that's the one we'll be using." So, to conclude, it's going to be a long recovery, the Fed will do what it takes and no negative rates ... for now.

President of the Cleveland Fed, Loretta Mester, was also pretty candid in her views on the US economy in an earlier speech stating, *"the baseline outlook is for the economy to begin to grow in the 2H 2020,"* but added, *"the more pessimistic scenario, which would incorporate a surge in new coronavirus cases requiring further shutdowns, is almost as likely as a baseline!"*

Equity markets didn't like the realism of these comments and have shed 3-4% across the European and US indices. The 'risk' currencies have also fallen, with the NZD and AUD at 0.5985 and 0.6445 respectively against the USD, while the cross is at 0.9285. As we can see, the NZD has been hit particularly hard following the MPS yesterday, and this was also reflected in the interest rate market where swap rates were crushed. As a point of reference, the 2, 5, and 10 years IRS rates closed respectively at 0.11%, 0.22% and 0.60%!

In the UK, according to the *Telegraph*, the Chancellor of the Exchequer, Rishi Sunak, is already considering how to pay for their ballooning budget deficit. By all accounts, proposals centre on the usual suspects ... increasing income tax, scrapping automatic rises to state

pensions (Major Tom should have kept 10% for himself), and, a freeze in public sector pay.

RBNZ talk the currency down

The RBNZ stepped up to the plate yesterday, leaving the OCR unchanged at 0.25%, but increased the LSAP (QE by another name) to NZD60 billion. It also increased the eligible forms of collateral to include inflation linked bonds into the QE programme. The RBNZ justified the large expansion of the QE programme on the grounds that it was *"preferable to add too much stimulus rather than too little"* as *"the balance of economic risks remain to the downside."*

If additional stimulus was needed, the RBNZ could, *"add other types of assets to the bond purchase program"* and it is *"prepared to lower (the) cash rate if needed."*

This last point refers to taking rates negative, although that would have to be next year once the financial institutions have the appropriate systems. Ultimately, the RBNZ is keeping all options on the table ... negative rates, expanding the mix of eligible bonds into the QE programme, even its ability to purchase foreign assets. All up, a well-received meeting (via Zoom) that successfully managed to weaken the NZD.

Now for the budget ...

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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	68.10					CAD	0.8448 0.9093
NZD/USD	0.5994	-0.0001	-0.0003	-0.0006	-0.0009	CHF	0.5828 0.6273
NZD/AUD	0.9291	-0.0002	-0.0006	-0.0009	-0.0011	CNY	4.2510 4.5756
NZD/JPY	64.15	-0.03	-0.13	-0.27	-0.59	DKK	4.1322 4.4477
NZD/EUR	0.5542	-0.0004	-0.0013	-0.0027	-0.0055	FJD	1.3465 1.4493
NZD/GBP	0.4904	-0.0001	-0.0004	-0.0008	-0.0015	HKD	4.6457 5.0005
						KRW	735.51 791.68
AU TWI	57.20					MYR	2.6031 2.8019
AUD/USD	0.6452	0.0000	0.0001	0.0000	-0.0002	NOK	6.0964 6.5619
AUD/NZD	1.0764	0.0002	0.0007	0.0011	0.0013	SEK	5.8840 6.3333
AUD/JPY	69.05	-0.02	-0.09	-0.22	-0.55	SGD	0.8509 0.9159
AUD/EUR	0.5965	-0.0003	-0.0011	-0.0023	-0.0052	TWD	17.92 19.29
AUD/GBP	0.5278	0.0000	-0.0001	-0.0003	-0.0009	ZAR	11.0993 11.9469
USD Index	100.21						
EUR/USD	1.0815	0.0006	0.0021	0.0043	0.0091	EQUITIES	
USD/JPY	107.03	-0.04	-0.16	-0.35	-0.82		Index
GBP/USD	1.2224	0.0001	0.0005	0.0008	0.0018	NZX50	10,788
EUR/GBP	0.8848	0.0004	0.0014	0.0029	0.0061	ASX200	5,422
						Dow Jones	23,248
						S&P 500	2,814
						FTSE100	5,904
						DAX 30	10,543
						Nikkei	20,267
INTEREST RATES		New Zealand		Australia			
		Borrow	Invest	Borrow	Invest		COMMODITIES
							USD
30 day bank bills		0.31%	0.27%	0.09%	0.09%	Dubai Light	26.99
90 day bank bills		0.30%	0.26%	0.11%	0.07%	Brent Crude	29.32
FRA 90d in 3mths		0.25%	0.22%	0.15%	0.10%	Gold	1,714.76
FRA 180d in 6mths		0.14%	0.11%	0.18%	0.14%	Silver	15.57
1 year swap*		0.21%	0.18%	0.13%	0.11%	CRB Index	128.08
2 year swap*		0.12%	0.09%	0.15%	0.14%		
3 year swap*		0.13%	0.10%	0.21%	0.20%		
5 year swap*		0.23%	0.21%	0.44%	0.42%		
10 year swap*		0.61%	0.59%	0.87%	0.85%		
10 year Govt bond			0.58%		0.96%		

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

SOURCE: Bloomberg

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