



BANCORP

BANCORP TREASURY SERVICES LIMITED

MARKET ALERT

Wednesday 6 May 2020 | www.bancorptreasury.com

CURRENCIES	Spot	6mths
NZD/USD	0.6059	-0.0006
NZD/AUD	0.9411	-0.0010
NZD/JPY	64.52	-0.28
NZD/EUR	0.5586	-0.0028
NZD/GBP	0.4869	-0.0008
NZD/CNH	4.3133	0.0130
AUD/USD	0.6439	0.0001
AUD/EUR	0.5937	-0.0023
EUR/USD	1.0846	0.0044
USD/CNH	7.1227	0.0285
GBP/USD	1.2444	0.0008
EUR/GBP	0.8715	0.0029

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.25%
90 day bills	0.28%	0.10%
2 year swap	0.20%	0.21%
10 year Govt	0.72%	0.87%

All things considered

Last night's GDT auction held up surprisingly well, all things considered. The headline result showed a -0.8% fall from the previous auction, with the main component, whole milk powder, up 0.1%.

Against this, one of the local banks has revised lower their Fonterra 2020-2021 season milk price projection to NZD 5.75/kg, citing surplus product and falling prices in the US and Europe. They have maintained their 2019-2020 call at NZD7.15/kg.

This follows on from last week's call by another bank for NZD5.60. Futures pricing is indicating a NZD5.90-5.99 range.

Yesterday's Reserve Bank of Australia ("RBA") meeting was a rather subdued affair with little to note, leaving their rates unchanged at 0.25% for the target cash and 3 year rates. The highlight was the announcement that the RBA will expand their QE programme to incorporate BBB- rated corporate debt. Their forecast for the economy remains subdued and, as per the Treasurer's comments, they aren't going to overextend on QE. The central bank has scaled back the size and frequency of bond purchases, which to date have totalled around AUD50 billion.

Australian Treasurer, Josh Frydenberg, commented that the fiscal stimulus already provided will be enough to support the economy adding that he has already committed a very significant amount.

Australian weekly payroll and wage numbers decreased 7.5% in the 5 weeks after its 100th COVID-19 case was confirmed. This equates to around 975,000 job losses.

Risk on moves emerged overnight as markets prepare for economies to move out of the COVID-19 lockdowns. Oil was the main benefactor as it rallied 20% overnight, currently trading at USD24.30.

Treasury yields, gold and the USD all traded flat, leaving the NZD/USD and AUD/USD trading at 0.6060 and 0.6440 respectively. Conceivably, market participants are taking a pause ahead of Friday's non farm payrolls, which is expected to hit 22 million claims with the unemployment rate hitting 16%.

The outlook for Wednesday

Goldman Sachs says the global economy has likely bottomed as countries start to unwind their lockdown and social-distancing restrictions.

This is reflected in Goldman Sachs' oil forecast, predicting a price rally to USD51.00 in 2021. While they are not expecting oil prices to jump too much in the coming weeks, they are bullish on prices for next year as, "oil production has started to decline quickly (and) demand is also beginning to recover from a low base, led by a restarting Chinese economy."

In a similar vein, JP Morgan is calling US stocks higher as, "we still find room for further short covering, in particular equities and HY credit."

Not to be outdone, Morgan Stanley added, "do not sell in May and do not go away," believing that a 10% correction is overdue.

And while this is all very encouraging, shopping in the US just got that bit harder as Kroger, the largest supermarket chain in the US, set limits on fresh pork and ground beef purchases at some stores, while Costco is limiting shoppers to three items of beef, pork and poultry products as US processors struggle with worker COVID-19 infections and plant closures.

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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	68.73					CAD	0.8514	0.9047
NZD/USD	0.6059	-0.0001	-0.0003	-0.0006	-0.0011	CHF	0.5890	0.6259
NZD/AUD	0.9411	-0.0002	-0.0006	-0.0010	-0.0016	CNY	4.2794	4.5474
NZD/JPY	64.52	-0.04	-0.14	-0.28	-0.62	DKK	4.1688	4.4299
NZD/EUR	0.5586	-0.0004	-0.0014	-0.0028	-0.0058	FJD	1.3650	1.4506
NZD/GBP	0.4869	-0.0001	-0.0004	-0.0008	-0.0016	HKD	4.6979	4.9921
						KRW	740.12	786.48
AU TWI	56.90					MYR	2.6006	2.7635
AUD/USD	0.6439	0.0001	0.0001	0.0001	-0.0001	NOK	6.2131	6.6023
AUD/NZD	1.0626	0.0002	0.0007	0.0011	0.0018	SEK	5.9577	6.3309
AUD/JPY	68.57	-0.02	-0.10	-0.23	-0.55	SGD	0.8576	0.9113
AUD/EUR	0.5937	-0.0003	-0.0011	-0.0023	-0.0052	TWD	18.08	19.21
AUD/GBP	0.5174	0.0000	-0.0001	-0.0003	-0.0008	ZAR	11.2070	11.9090
USD Index	99.77							
EUR/USD	1.0846	0.0007	0.0021	0.0044	0.0094	EQUITIES		
USD/JPY	106.50	-0.05	-0.17	-0.36	-0.83			Index
GBP/USD	1.2444	0.0002	0.0005	0.0008	0.0017	NZX50		10,491
EUR/GBP	0.8715	0.0004	0.0014	0.0029	0.0064	ASX200		5,407
						Dow Jones		23,883
						S&P 500		2,872
						FTSE100		5,849
						DAX 30		10,729
						Nikkei		19,619
						COMMODITIES		
								USD
						Dubai Light		27.07
						Brent Crude		31.11
						Gold		1,707.54
						Silver		14.95
						CRB Index		131.28

INTEREST RATES	New Zealand		Australia	
	Borrow	Invest	Borrow	Invest
30 day bank bills	0.30%	0.27%	0.10%	0.10%
90 day bank bills	0.30%	0.27%	0.12%	0.08%
FRA 90d in 3mths	0.22%	0.19%	0.19%	0.14%
FRA 180d in 6mths	0.18%	0.15%	0.25%	0.21%
1 year swap*	0.23%	0.20%	0.17%	0.16%
2 year swap*	0.21%	0.18%	0.21%	0.20%
3 year swap*	0.23%	0.21%	0.27%	0.26%
5 year swap*	0.34%	0.32%	0.47%	0.46%
10 year swap*	0.72%	0.70%	0.90%	0.89%
10 year Govt bond		0.70%		0.87%

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

SOURCE: Bloomberg

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