



BANCORP

BANCORP TREASURY SERVICES LIMITED

MARKET ALERT

Thursday 11 June 2020 | www.bancorptreasury.com

CURRENCIES	Spot	6mths
NZD/USD	0.6543	-0.0007
NZD/AUD	0.9345	-0.0009
NZD/JPY	70.10	-0.30
NZD/EUR	0.5750	-0.0030
NZD/GBP	0.5133	-0.0010
NZD/CNH	4.6130	0.0366
AUD/USD	0.7002	-0.0001
AUD/EUR	0.6153	-0.0026
EUR/USD	1.1380	0.0047
USD/CNH	7.1227	0.0641
GBP/USD	1.2747	0.0010
EUR/GBP	0.8927	0.0030

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.25%
90 day bills	0.25%	0.10%
2 year swap	0.25%	0.22%
10 year Govt	0.94%	1.02%

The FED swings markets from red to green and back

The Federal Reserve left its benchmark target range unchanged at 0.00%-0.25%, in line with expectations.

The statement reiterated that the Fed is committed to maintaining rates at these levels until 2022, using the full range of tools to support the US economy, and pledged to continue their existing asset purchase programmes.

The dot plot of the Fed funds rate projections highlighted rates will remain at current levels until 2022, and this was explicitly referenced in the statement.

The Fed expects US economy to shrink 6.5% this year, but projects 5.0% growth in 2021.

In the news conference post the meeting, Chair, Jerome Powell, stated *“we’re strongly committed to using all our tools,”* before adding, *“we’re not thinking about raising rates, we’re not even thinking about thinking about raising rates.”* He then set about anchoring expectations with, *“the decline in GDP in 2Q (is) likely to be the most severe on record,”* although the *“May unemployment report was a ‘welcome surprise, (although) the report highlights the uncertainty around forecasts.”* Powell then went on to say *“popping the asset bubble would hurt job seekers.”*

The initial statement, with the emphasis on low rates and ‘free’ liquidity, spurred equity markets into positive territory before the realism of the press conference, which highlighted the long-term implications and future uncertainty, saw a revision in sentiment forcing markets back into the red. The NASDAQ though, bucked the trend. The US 10-year Treasury Bond yield continues to fall and has fallen almost 20 basis points this week to 0.73%, while currencies remain fairly static.

And the data didn’t help

The US Inflation rate is the lowest it’s been since 2015 as it eased to 0.1% in May. This was below expectations of 0.2%, mainly due to gasoline prices

plunging 33.8%. Most sectors saw a decline, such as the transport and retail sectors, although food inflation increased to 4.0%.

Unsurprisingly, the US government budget deficit rose 92% in May from a year earlier. This takes the total deficit to USD1.88 trillion over 8 months, an all-time high to combat the economic downturn of COVID-19.

The OECD did little to inspire confidence of a recovery as they warned of the deepest economic scars in a century. While developed countries would likely experience a rapid initial bounce back from recession, it would probably fall far short of bringing living standards back to pre-pandemic levels.

China’s May CPI came in at 2.4% annualised against an expected 2.7%. This was a 0.9% fall on April’s 3.3%. Key takeaways from the data consisted of China’s factory deflation, which deepened in May, and consumer price gains, which also slowed, signalling that the recovery isn’t yet strong enough to produce inflation pressures.

NZ manufacturing activity for the March quarter was flat, but should be tempered with the fact this was mainly before the COVID-19 rot set-in. Petroleum and coal products had the largest industry decreases in the quarter.

The US State Secretary, Mike Pompeo, says the US will stand with its allies against Chinese Communist Party’s coercive bullying. For ‘allies’ please read ‘Great Britain and Australia.’

**BANCORP**

BANCORP TREASURY SERVICES LIMITED

DAILY RATES

Thursday 11 June 2020 | www.bancorptreasury.com

FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	72.22					CAD	0.8768	0.9383
NZD/USD	0.6543	-0.0001	-0.0003	-0.0007	-0.0015	CHF	0.6172	0.6605
NZD/AUD	0.9345	-0.0001	-0.0005	-0.0009	-0.0013	CNY	4.6201	4.9442
NZD/JPY	70.10	-0.05	-0.14	-0.30	-0.66	DKK	4.2861	4.5867
NZD/EUR	0.5750	-0.0005	-0.0015	-0.0030	-0.0062	FJD	1.4148	1.5140
NZD/GBP	0.5133	-0.0002	-0.0005	-0.0010	-0.0020	HKD	5.0710	5.4267
						KRW	778.68	833.31
AU TWI	60.90					MYR	2.7850	2.9803
AUD/USD	0.7002	0.0000	0.0000	-0.0001	-0.0006	NOK	6.0785	6.5048
AUD/NZD	1.0701	0.0002	0.0005	0.0010	0.0015	SEK	6.0089	6.4304
AUD/JPY	75.02	-0.04	-0.12	-0.25	-0.60	SGD	0.9050	0.9685
AUD/EUR	0.6153	-0.0004	-0.0013	-0.0026	-0.0057	TWD	19.40	20.76
AUD/GBP	0.5493	-0.0001	-0.0003	-0.0005	-0.0013	ZAR	10.7883	11.5451
USD Index	95.95							
EUR/USD	1.1380	0.0008	0.0024	0.0047	0.0098	EQUITIES		
USD/JPY	107.15	-0.06	-0.17	-0.34	-0.78			Index
GBP/USD	1.2747	0.0002	0.0006	0.0010	0.0020	NZX50		11,261
EUR/GBP	0.8927	0.0005	0.0015	0.0030	0.0062	ASX200		6,148
						Dow Jones		26,990
						S&P 500		3,199
						FTSE100		6,329
						DAX 30		12,530
						Nikkei		23,125
						COMMODITIES		
								USD
						Dubai Light		40.81
						Brent Crude		41.17
						Gold		1,738.49
						Silver		18.13
						CRB Index		147.84

INTEREST RATES	New Zealand		Australia	
	Borrow	Invest	Borrow	Invest
30 day bank bills	0.29%	0.25%	0.09%	0.09%
90 day bank bills	0.27%	0.23%	0.12%	0.08%
FRA 90d in 3mths	0.30%	0.27%	0.19%	0.14%
FRA 180d in 6mths	0.26%	0.23%	0.29%	0.25%
1 year swap*	0.27%	0.25%	0.18%	0.16%
2 year swap*	0.27%	0.24%	0.23%	0.21%
3 year swap*	0.31%	0.28%	0.29%	0.28%
5 year swap*	0.45%	0.41%	0.48%	0.46%
10 year swap*	0.88%	0.85%	0.93%	0.92%
10 year Govt bond		0.92%		1.02%

* 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.