



MARKET ALERT

Friday 19 June 2020 | www.bancorptreasury.com

CURRENCIES	Spot	6mths
NZD/USD	0.6424	-0.0007
NZD/AUD	0.9383	-0.0010
NZD/JPY	68.77	-0.27
NZD/EUR	0.5736	-0.0030
NZD/GBP	0.5174	-0.0010
NZD/CNH	4.5502	0.0367
AUD/USD	0.6847	0.0000
AUD/EUR	0.6113	-0.0026
EUR/USD	1.1201	0.0047
USD/CNH	7.1227	0.0648
GBP/USD	1.2415	0.0012
EUR/GBP	0.9022	0.0029

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.25%
90 day bills	0.28%	0.11%
2 year swap	0.23%	0.19%
10 year Govt	0.86%	0.88%

To stimulate or not to stimulate, that is the question

This is a first, a central bank member talking about unwinding stimulus!

Independent RBA board member, Ian Harper, has urged the Australian government to come up with a ‘tapering arrangement’ for its stimulus programs. These programmes are due to end in September, with the risk that a sharp cut off could damage the recovery and impact unemployment as, *“The strongest form of Cold Turkey would be to cut back to where they were before. That would have a significant negative effect on consumer*

confidence, on consumption behaviour, and consumption’s 60% of the economy.”

Speaking of unemployment, the Australian jobs report for May showed employment fell 227.7k against an expected 78.8k fall. This led the unemployment rate to climb to 7.1%, its highest print since 2001. With downside revisions to the April numbers, and the lowest participation rate since the end of 1998, these numbers are, frankly, terrible!

New Zealand’s GDP for the March quarter, wasn’t much better either, coming in well below expectations at -1.6% for the quarter (expected -1.0%) and -0.2% annualised (expected 0.3%). It should be noted that the pandemic didn’t really impact until mid-March, so the implication is that the NZ economy was slowing even before COVID-19 hit.

Loretta Mester, President of the Cleveland Fed, was talking down the US economy with a dire outlook for GDP and unemployment, but at least she expects the economy to pick up in late 2020. Headline comments included the classic, *“(the) US recovery is going to be a long road back (as the) Fed will need to have a very accommodative monetary policy for a long time.”* This one caught our eye too, as we believe it’s the first Fed comment on the social unrest, *“longstanding racial and economic disparities are getting worse because of the pandemic.”*

Just to prove Mester’s point, Americans initial claims numbers were still eye-watering high at 1.5 million for

the week, the lowest level since the pandemic began and trending lower, but still above market expectations of 1.3 million.

Overnight, global markets were muted on reports of increasing second waves/lingering first wave infections in China, Israel, and New Zealand, while in the US, California had its biggest one day jump, Florida’s cases rose the most ever, and Texas hospitalisations climbed for a seventh straight day. Politics is also back play too, after newspapers published summaries of John Bolton’s highly critical book on President Trump. In amongst all this, equities are off a touch, the US 10 year bond yield is at 0.69%, and, against the USD, the NZD is at 0.6425 and the AUD is at 0.6850

Central bank action

The BoE voted unanimously to retain their key bank rate at 0.1%. Policymakers also voted 8-1 to increase their QE government bonds programme by an additional GBP100 billion, to take the total QE programme to GBP745 billion.

Meanwhile, the PBOC has cut rates on its 14 day reverse repo to 2.35% (from 2.55%). The PBOC government says economy is sound and monetary policy still in normal range.

G7 foreign ministers issued a joint statement *“underscoring our grave concerns regarding China’s decision to impose a national security law on Hong Kong.”*

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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	71.57					CAD	0.8743	0.9318
NZD/USD	0.6424	-0.0001	-0.0003	-0.0007	-0.0013	CHF	0.6112	0.6514
NZD/AUD	0.9383	-0.0002	-0.0005	-0.0010	-0.0015	CNY	4.5539	4.8536
NZD/JPY	68.77	-0.04	-0.13	-0.27	-0.62	DKK	4.2761	4.5575
NZD/EUR	0.5736	-0.0004	-0.0014	-0.0030	-0.0062	FJD	1.3964	1.4883
NZD/GBP	0.5174	-0.0001	-0.0005	-0.0010	-0.0021	HKD	4.9787	5.3064
						KRW	773.65	824.57
AU TWI	60.00					MYR	2.7615	2.9432
AUD/USD	0.6847	0.0001	0.0001	0.0000	-0.0003	NOK	6.1349	6.5386
AUD/NZD	1.0658	0.0002	0.0006	0.0011	0.0017	SEK	6.0561	6.4547
AUD/JPY	73.30	-0.03	-0.09	-0.21	-0.55	SGD	0.8959	0.9548
AUD/EUR	0.6113	-0.0004	-0.0012	-0.0026	-0.0056	TWD	19.02	20.27
AUD/GBP	0.5515	-0.0001	-0.0002	-0.0005	-0.0014	ZAR	11.2200	11.9584
USD Index	97.42							
EUR/USD	1.1201	0.0008	0.0023	0.0047	0.0099	EQUITIES		
USD/JPY	107.06	-0.05	-0.15	-0.31	-0.75			Index
GBP/USD	1.2415	0.0002	0.0006	0.0012	0.0025	NZX50		11,225
EUR/GBP	0.9022	0.0004	0.0014	0.0029	0.0061	ASX200		5,936
						Dow Jones		26,080
						S&P 500		3,107
						FTSE100		6,224
						DAX 30		12,282
						Nikkei		22,355
						COMMODITIES		
								USD
						Dubai Light		39.98
						Brent Crude		41.41
						Gold		1,724.38
						Silver		17.39
						CRB Index		145.54

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	0.30%	0.26%	0.13%	0.09%
FRA 90d in 3mths	0.31%	0.28%	0.18%	0.13%
FRA 180d in 6mths	0.24%	0.21%	0.24%	0.20%
1 year swap*	0.28%	0.25%	0.15%	0.14%
2 year swap*	0.24%	0.21%	0.19%	0.18%
3 year swap*	0.26%	0.23%	0.24%	0.23%
5 year swap*	0.37%	0.34%	0.43%	0.42%
10 year swap*	0.75%	0.72%	0.86%	0.85%
10 year Govt bond		0.84%		0.88%

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

SOURCE: Bloomberg

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