



BANCORP

BANCORP TREASURY SERVICES LIMITED

MARKET ALERT

Monday 17 August 2020 | www.bancorptreasury.com

CURRENCIES	Spot	6mths
NZD/USD	0.6539	-0.0002
NZD/AUD	0.9122	-0.0006
NZD/JPY	69.71	-0.24
NZD/EUR	0.5521	-0.0025
NZD/GBP	0.4992	-0.0007
NZD/CNH	4.5425	0.0536
AUD/USD	0.7168	0.0002
AUD/EUR	0.6053	-0.0023
EUR/USD	1.1842	0.0049
USD/CNH	7.1227	0.0845
GBP/USD	1.3101	0.0014
EUR/GBP	0.9039	0.0028

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.25%
90 day bills	0.29%	0.10%
2 year swap	0.14%	0.17%
10 year Govt	0.67%	0.93%

First in, first out

China's economy, the first to succumb to coronavirus, is proving to be the fastest to recover as economists forecast China will be the only major economy to expand this year, with a growth consensus of 2.0%. But the data is telling a slightly different story, with Chinese industrial production 'only' growing 4.8% for the year against an expected 5.1%, while retail sales contracted 1.1% annually against an expected +0.1%.

Against this, Goldman Sach's latest growth/risk forecasts all have a positive skew. Their forecasts imply that there is still room for higher US growth,

particularly given the prospects for an early vaccine. Goldman's forecast that as long as growth remains in the driver's seat, there will be further equity upside, even if recent real yield declines were to reverse. Goldman's US growth forecasts now incorporate a vaccine approval by the end of 2020, and widespread distribution by the end of Q2 2021 as their central case. If nothing else, they could always use Russia's COVID 'vaccine.'

Warren Buffett's Berkshire Hathaway was busy in Q2 significantly cutting its stakes in some of the largest US banks selling billions of dollars' worth of stock in Wells Fargo, JPMorgan Chase, Goldman Sachs, and other financial institutions. In total, including both financial and non-financial stocks, Berkshire dumped USD12.8 billion worth of shares in the quarter, although they did increase their exposure to gold via a new holding in Barrick Gold, the world's second largest miner of the precious metal.

We have always respected the RBA's Governor Lowe and, to be fair, he has done a remarkable job through the pandemic. His latest comments are straight up and to the point, such as, he would like the AUD lower, but it is not overvalued, and that intervention to lower the AUD would not be successful. Also, he is not expecting a lift in economic growth until Q4 and, this it is the doozie, it's possible the cash rate will be 0.25% for the next 5 years!

The NZ Treasury has been busy as well, reporting the local activity index for July was up 2.0% on 12 months ago, an improvement on June's +0.6%. and the BusinessNZ manufacturing PMI for July improved to 58.8 against June's 56.3

US retail sales beat expectations at 2.1% for July against an expected 1.2% increase but saw a steep slowdown from June's 7.5% gain. And with the extended unemployment benefits having ended, August is setting up to be dramatically worse.

This followed through to equity markets, which appear to be struggling for momentum with markets at, or near, all-time highs, while the US 10-year Treasury yield flatlined at 0.71%. FX markets were equally lacklustre, with the NZD and AUD opening this morning at 0.6550 and 0.7170 against the USD.

This is going to cost someone their job!

Lenders that sued Revlon on Wednesday, over its debt-restructuring tactics, were surprised to learn on Thursday that they had been fully repaid a loan issued in 2016. In a mistake, CitiBank has paid nearly USD900 million to Revlon lenders, and they are asking for the money to be returned.

President Trump's ex-lawyer, Michael Cohen, has written a tell-all book stating, "Trump wanted me dead." Well, he is a lawyer!

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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	71.21					CAD 0.8678	0.9513
NZD/USD	0.6539	0.0000	-0.0001	-0.0002	-0.0002	CHF 0.5949	0.6521
NZD/AUD	0.9122	-0.0001	-0.0003	-0.0006	-0.0005	CNY 4.5467	4.9846
NZD/JPY	69.71	-0.03	-0.09	-0.24	-0.44	DKK 4.1122	4.5082
NZD/EUR	0.5521	-0.0004	-0.0011	-0.0025	-0.0045	FJD 1.3986	1.5333
NZD/GBP	0.4992	-0.0001	-0.0003	-0.0007	-0.0010	HKD 5.0679	5.5559
						KRW 776.45	851.23
AU TWI	61.50					MYR 2.7433	3.0075
AUD/USD	0.7168	0.0001	0.0002	0.0002	0.0001	NOK 5.8171	6.3774
AUD/NZD	1.0963	0.0001	0.0004	0.0008	0.0006	SEK 5.6794	6.2264
AUD/JPY	76.42	-0.02	-0.07	-0.21	-0.44	SGD 0.8970	0.9833
AUD/EUR	0.6053	-0.0003	-0.0010	-0.0023	-0.0046	TWD 19.27	21.12
AUD/GBP	0.5471	0.0000	-0.0001	-0.0004	-0.0008	ZAR 11.3688	12.4637
USD Index	93.10						
EUR/USD	1.1842	0.0008	0.0023	0.0049	0.0094	EQUITIES	
USD/JPY	106.62	-0.03	-0.12	-0.33	-0.64		Index
GBP/USD	1.3101	0.0002	0.0006	0.0014	0.0021	NZX50	11,452
EUR/GBP	0.9039	0.0005	0.0013	0.0028	0.0057	ASX200	6,126
						Dow Jones	27,931
						S&P 500	3,373
						FTSE100	6,090
						DAX 30	12,901
						Nikkei	23,289
						COMMODITIES	
							USD
						Dubai Light	43.07
						Brent Crude	44.80
						Gold	1,943.72
						Silver	26.41
						CRB Index	158.48

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	0.29%	0.28%	0.12%	0.08%
FRA 90d in 3mths	0.28%	0.25%	0.15%	0.10%
FRA 180d in 6mths	0.16%	0.13%	0.20%	0.16%
1 year swap*	0.22%	0.19%	0.14%	0.13%
2 year swap*	0.15%	0.12%	0.18%	0.17%
3 year swap*	0.15%	0.12%	0.22%	0.21%
5 year swap*	0.24%	0.20%	0.40%	0.38%
10 year swap*	0.63%	0.59%	0.86%	0.84%
10 year Govt bond		0.65%		0.93%

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

SOURCE: Bloomberg

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