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BANCORP TREASURY SERVICES LIMITED

MARKET ALERT

Wednesday 26 August 2020 | www.bancorptreasury.com

CURRENCIES	Spot	6mths
NZD/USD	0.6547	-0.0003
NZD/AUD	0.9103	-0.0008
NZD/JPY	69.65	-0.23
NZD/EUR	0.5534	-0.0025
NZD/GBP	0.4981	-0.0008
NZD/CNH	4.5207	0.0515
AUD/USD	0.7193	0.0003
AUD/EUR	0.6080	-0.0022
EUR/USD	1.1832	0.0048
USD/CNH	7.1227	0.0819
GBP/USD	1.3145	0.0014
EUR/GBP	0.9001	0.0027
INT RATES	NZ	Australia
OCR/Cash	0.25%	0.25%
90 day bills	0.28%	0.10%
2 year swap	0.09%	0.15%
10 year Govt	0.54%	0.89%

Out with the old, and in with the new!

Major changes to the Dow Jones Index have occurred with the replacement of three companies. Salesforce.com will replace Exxon Mobil, Amgen will replace Pfizer and Honeywell International will replace Raytheon Technologies.

Fed Chairman, Jerome Powell, is due to speak on Thursday (Friday NZ time) during a virtual version of the Fed's annual Jackson Hole conference. He is expected to outline what could be the central bank's most active efforts ever to spur inflation via 'Average inflation'

targeting, which means the Fed will allow inflation to run higher than normal for a period of time.

Interestingly, Deputy Governor, Lawrence Schembri, announced that the Bank of Canada is looking at average inflation targeting.

Fed member, Thomas Barkin, announced he "does not see evidence that the Fed's balance sheet is creating inflation." He added, "Firms are hesitant to hire and invest due to the uncertainty."

Sales of new single family homes in the United States in July soared to 13.9%, its highest level since 2006, with the seasonally adjusted annual rate reaching 901,000.

Chinese Vice Premier Liu He, US Treasury Secretary, Steven Mnuchin, and US Trade Representative, Robert Lighthizer, participated in a phone call to discuss the Phase 1 trade deal with a lot of positive noises being made by both sides on progress being made and promises of more to come. Later in the session, Navarro commented, "The Phase I trade deal is alive and well."

The RBA has published a discussion paper on 'How Risky is Australian Household Debt?' While it was generally positive, there were some warnings, "Our model cannot account for the increase in debt over the past four or five years. In addition, we demonstrate that a large but plausible fall in asset prices could lead to a substantial fall in consumption."

People's Bank of China statements are like buses ... you get nothing for ages, then they all come together!

First up, an official stated there is "no need to lower Chinese banks' capital adequacy ratio requirements" as a form of monetary stimulation, while another official announced, "China is running internal tests on a digital currency." Finally, another official said, "China's monetary policy direction will not change. China is flexible and appropriate monetary policy approach will not change."

There were a couple of data releases out of Germany. First up was the June quarter GDP which showed a contraction of 9.7% for the quarter against an expectation of a 10.1% fall. We then had the IFO business climate indicator which rose by 2.2 points from the previous month to 92.6 in August.

Ahead of Jackson Hole, markets were very ho-hum. Equities were flat in fact, everything was flat! The NZD/USD is at 0.6545, AUD/USD 0.7195, NZD/AUD 0.9100, and the US 10-year yield is at 0.68%

Interesting fact of the day ...

Toyota + Volkswagen + GM + Ford + Nissan have a combined market cap USD387bn. The Tesla market cap is USD382bn. Toyota + Volkswagen + GM + Ford + Nissan have combined annual car sales of around 40 million units. Tesla's annual car sales are less than 400,000 units.

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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	71.04					CAD	0.8630 0.9481
NZD/USD	0.6547	0.0000	-0.0001	-0.0003	-0.0001	CHF	0.5943 0.6529
NZD/AUD	0.9103	-0.0001	-0.0004	-0.0008	-0.0004	CNY	4.5260 4.9723
NZD/JPY	69.65	-0.02	-0.09	-0.23	-0.39	DKK	4.1189 4.5250
NZD/EUR	0.5534	-0.0004	-0.0012	-0.0025	-0.0044	FJD	1.3955 1.5331
NZD/GBP	0.4981	-0.0001	-0.0003	-0.0008	-0.0009	HKD	5.0744 5.5747
						KRW	777.60 854.27
AU TWI	61.50					MYR	2.7231 2.9916
AUD/USD	0.7193	0.0001	0.0002	0.0003	0.0002	NOK	5.8688 6.4475
AUD/NZD	1.0986	0.0002	0.0005	0.0009	0.0004	SEK	5.7332 6.2985
AUD/JPY	76.52	-0.01	-0.06	-0.19	-0.40	SGD	0.8958 0.9841
AUD/EUR	0.6080	-0.0003	-0.0010	-0.0022	-0.0046	TWD	19.26 21.15
AUD/GBP	0.5472	0.0000	-0.0001	-0.0004	-0.0008	ZAR	11.0224 12.1092
USD Index	93.03						
EUR/USD	1.1832	0.0008	0.0023	0.0048	0.0094	EQUITIES	
USD/JPY	106.39	-0.03	-0.11	-0.30	-0.59		Index
GBP/USD	1.3145	0.0002	0.0006	0.0014	0.0022	NZX50	11,993
EUR/GBP	0.9001	0.0004	0.0013	0.0027	0.0056	ASX200	6,161
						Dow Jones	28,236
						S&P 500	3,444
						FTSE100	6,037
						DAX 30	13,062
						Nikkei	23,297
						COMMODITIES	
							USD
						Dubai Light	44.15
						Brent Crude	45.92
						Gold	1,927.87
						Silver	26.53
						CRB Index	162.14

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%	0.12%	0.08%
FRA 90d in 3mths	0.31%	0.23%	0.14%	0.09%
FRA 180d in 6mths	0.09%	0.06%	0.17%	0.13%
1 year swap*	0.18%	0.15%	0.13%	0.10%
2 year swap*	0.10%	0.07%	0.16%	0.14%
3 year swap*	0.09%	0.07%	0.20%	0.20%
5 year swap*	0.16%	0.13%	0.39%	0.38%
10 year swap*	0.52%	0.49%	0.84%	0.82%
10 year Govt bond		0.52%		0.89%

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

SOURCE: Bloomberg

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