



BANCORP

BANCORP TREASURY SERVICES LIMITED

MARKET ALERT

Wednesday 16 September 2020 | www.bancorp.co.nz

CURRENCIES	Spot	6mths
NZD/USD	0.6715	-0.0001
NZD/AUD	0.9195	-0.0007
NZD/JPY	70.79	-0.23
NZD/EUR	0.5669	-0.0026
NZD/GBP	0.5211	-0.0008
NZD/CNH	4.5520	0.0523
AUD/USD	0.7304	0.0004
AUD/EUR	0.6165	-0.0023
EUR/USD	1.1847	0.0051
USD/CNH	7.1227	0.0793
GBP/USD	1.2888	0.0017
EUR/GBP	0.9192	0.0028

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.25%
90 day bills	0.30%	0.09%
2 year swap	0.05%	0.11%
10 year Govt	0.61%	0.87%

What the minutes tell us

The RBA minutes highlighted that while it kept the cash rate at 0.25%, it emphasised the RBA would not increase the cash rate target until progress is made towards full employment. And while the members noted that the downturn had not been as severe as expected, with a recovery underway in most of Australia, the members will continue to consider how further monetary measures could support the recovery further.

This could be done in a couple of ways but, as the chief economist of Australia's

largest fund manager noted, a further cut to 0.10% in both the cash rate and the 3-year yield is a possibility, although one of the big four banks has come out stating it's unlikely... at this stage. If nothing else, the one thing this pandemic has taught us is that anything is possible!

When the PBoC stated that it wanted an economic recovery a couple of months ago, it meant it, and now we have the proof! Chinese August data beat expectations across the board as industrial production grew 5.6% on the year, against an expectation of 5.1%, while retail sales grew 0.5%, also on the year, against a 0.0% expectation.

Regardless of what the RBA minutes told us, the positive Chinese data was enough to see the USD index briefly break below the 93.00 level, which saw the AUD/USD and the NZD/USD bid higher.

Risk on moves overnight as US equities were mixed while European and Asian markets edged higher. The USD, Treasury yields, and oil all crept higher while gold moved lower. The USD/CNH climbed to its highest level in a year and stocks in Shanghai advanced on the evidence that China is accelerating out of the virus slump.

The NZD/USD reached a high of 0.6737 overnight on the initially weaker USD before retreating to a familiar 0.6715, the AUD/USD remains above 0.7300 and USD/JPY eased to 105.4.

We have the FOMC policy decision overnight tonight and this Friday sees the quadruple witching – the quarterly expiration of futures and options on indices and single stocks in US markets, which only happens once a quarter. It could lead to some interesting moves.

A Brexit jump to the left, and then a step to the right

UK's Cabinet Minister, Michael Gove, wants it both ways; he supports trade with the EU but supports breaking the EU-UK Brexit Withdrawal Treaty. And he got what we wanted as the vote failed to pass, leaving Prime Minister, Boris Johnson, to continue on his merry, contradictory way.

NZ Q3 consumer confidence printed at 95.1, down from Q2's 97.2, indicating that the impact of COVID-19 is not over yet. Falling confidence as we head into a period of uncertainty around the election and the rolling off of some support schemes has the potential to start a downward spiral, and something the RBNZ and the Government will be closely following.

On a positive note, dairy prices had a reasonable bounce back overnight with the GDT price index up 3.6%, its first rise in five auctions. The main contributor was a jump in skim milk powder, up 8.4%, while whole milk powder was up a more modest 3.2%.

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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	72.28					CAD	0.8856	0.9632
NZD/USD	0.6715	0.0000	-0.0001	-0.0001	0.0004	CHF	0.6098	0.6632
NZD/AUD	0.9195	-0.0001	-0.0004	-0.0007	0.0000	CNY	4.5544	4.9533
NZD/JPY	70.79	-0.04	-0.11	-0.23	-0.37	DKK	4.2173	4.5867
NZD/EUR	0.5669	-0.0004	-0.0012	-0.0026	-0.0044	FJD	1.4148	1.5387
NZD/GBP	0.5211	-0.0001	-0.0003	-0.0008	-0.0008	HKD	5.2040	5.6599
						KRW	792.33	861.74
AU TWI	62.30					MYR	2.7790	3.0225
AUD/USD	0.7304	0.0001	0.0002	0.0004	0.0005	NOK	6.0668	6.5982
AUD/NZD	1.0876	0.0001	0.0004	0.0008	0.0000	SEK	5.9032	6.4203
AUD/JPY	77.00	-0.03	-0.09	-0.19	-0.40	SGD	0.9138	0.9939
AUD/EUR	0.6165	-0.0004	-0.0010	-0.0023	-0.0048	TWD	19.66	21.38
AUD/GBP	0.5667	-0.0001	-0.0001	-0.0004	-0.0009	ZAR	11.0120	11.9767
USD Index	93.09							
EUR/USD	1.1847	0.0008	0.0023	0.0051	0.0100	EQUITIES		
USD/JPY	105.43	-0.05	-0.14	-0.32	-0.62		Index	
GBP/USD	1.2888	0.0002	0.0006	0.0017	0.0029	NZX50	11,771	
EUR/GBP	0.9192	0.0005	0.0014	0.0028	0.0057	ASX200	5,895	
						Dow Jones	28,000	
						S&P 500	3,393	
						FTSE100	6,106	
						DAX 30	13,218	
						Nikkei	23,455	
						COMMODITIES		
							USD	
						Dubai Light	39.03	
						Brent Crude	40.56	
						Gold	1,952.96	
						Silver	27.11	
						CRB Index	156.96	

INTEREST RATES	New Zealand		Australia	
	Borrow	Invest	Borrow	Invest
30 day bank bills	0.30%	0.26%	0.09%	0.09%
90 day bank bills	0.32%	0.28%	0.11%	0.07%
FRA 90d in 3mths	0.28%	0.24%	0.12%	0.07%
FRA 180d in 6mths	-0.02%	-0.04%	0.13%	0.09%
1 year swap*	0.13%	0.11%	0.11%	0.07%
2 year swap*	0.06%	0.03%	0.11%	0.10%
3 year swap*	0.07%	0.04%	0.15%	0.14%
5 year swap*	0.15%	0.11%	0.32%	0.31%
10 year swap*	0.55%	0.52%	0.80%	0.78%
10 year Govt bond		0.59%		0.87%

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

SOURCE: Bloomberg

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