



BANCORP

BANCORP TREASURY SERVICES LIMITED

MARKET ALERT

Thursday 24 September 2020 | www.bancorp.co.nz

CURRENCIES	Spot	6mths
NZD/USD	0.6545	-0.0002
NZD/AUD	0.9256	-0.0008
NZD/JPY	68.97	-0.21
NZD/EUR	0.5613	-0.0025
NZD/GBP	0.5147	-0.0007
NZD/CNH	4.4677	0.0517
AUD/USD	0.7071	0.0004
AUD/EUR	0.6064	-0.0022
EUR/USD	1.1661	0.0048
USD/CNH	7.1227	0.0809
GBP/USD	1.2717	0.0013
EUR/GBP	0.9170	0.0028

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.25%
90 day bills	0.30%	0.08%
2 year swap	0.03%	0.10%
10 year Govt	0.47%	0.80%

RBNZ throws a spanner

While the RBNZ maintained the OCR at 0.25% and its QE programme at existing levels, it did throw a small spanner into the works with the introduction of a Funding for Lending Programme (FLP).

This programme will be established before the end of the year, as *“members agreed that monetary policy will need to provide significant economic support for a long time to come to meet the inflation and employment remit, and promote financial stability”* as *“the Committee agreed that providing term funding at rates near the OCR via an FLP would lower the financial system’s funding costs.”*

With a negative OCR all but confirmed post March 2021, the FLP announcement caught market participants off guard with bond and swaps rates falling to all time lows.

However, the NZD put on an initial spike as traders initially thought an FLP could negate the need for a negative OCR, but, when the statement confirmed the possibility that the RBNZ could deploy multiple instruments concurrently, we saw the NZD give up most of its gains.

While we don’t know the exact details of how the RBNZ would structure an FLP, similar facilities have been used in Japan and the Eurozone in conjunction with negative rates, while they have also been deployed in Sweden, Australia and the UK with positive rates.

Overnight, international markets resumed their weakening trend with indices a sea of red. European markets were down 0-1%, while the US exchanges were hit harder easing 2-3%.

Commodity markets are predominately flat, although a big shout out must go to silver, down 7.0%, and natural gas, up 17.0%.

US Treasuries remain flat, with the 10 year yield at 0.68%, although volatility has returned to currency markets as the USD index hit a 2 month high.

This has seen the NZD/USD break below the 0.66 level to be at 0.6545, with the AUD/USD falling to 0.7075.

Best of the rest

US manufacturing beat expectations as the IHS Markit PMI increased to 53.5 in September, its highest level since January 2019. New businesses rose at a solid pace, although both export order’s and job creation slowed.

The House of Representatives has overwhelmingly voted to extend Federal funding through to December, easing the threat of a government shutdown.

BoE Governor, Andrew Bailey, said the UK government should *“stop and rethink”* about ending the furlough scheme, which is due to finish at the end of next month. He then added *“like the Fed, the BOE is flexible in returning inflation back to its target,”* and, *“we will do everything we can to support the UK economy.”* This was then followed by the announcement that UK Chancellor, Rishi Sunak, is drawing up plans for a new wage subsidy programme.

The FT headlined with the startling fact that the pandemic had knocked a tenth off workers incomes globally.

JPMorgan Chase are set to pay almost USD1 billion to resolve a government investigation into the alleged manipulation of metals and Treasuries markets.

In a throwback to the 1950’, President Trump has imposed new curbs on imports of Cuban rum and cigars.

This will be fun ... Tesla is suing the Trump administration to overturn tariffs on China.

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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	71.17					CAD	0.8758	0.9462
NZD/USD	0.6545	0.0000	-0.0001	-0.0002	0.0004	CHF	0.6046	0.6531
NZD/AUD	0.9256	-0.0001	-0.0004	-0.0008	-0.0002	CNY	4.4563	4.8144
NZD/JPY	68.97	-0.03	-0.10	-0.21	-0.35	DKK	4.1771	4.5129
NZD/EUR	0.5613	-0.0004	-0.0012	-0.0025	-0.0043	FJD	1.3936	1.5057
NZD/GBP	0.5147	-0.0001	-0.0003	-0.0007	-0.0007	HKD	5.0721	5.4798
						KRW	766.54	828.16
AU TWI	60.80					MYR	2.7416	2.9619
AUD/USD	0.7071	0.0001	0.0002	0.0004	0.0006	NOK	6.2172	6.7169
AUD/NZD	1.0804	0.0001	0.0005	0.0009	0.0003	SEK	5.8943	6.3681
AUD/JPY	74.52	-0.02	-0.07	-0.16	-0.36	SGD	0.8985	0.9707
AUD/EUR	0.6064	-0.0003	-0.0010	-0.0022	-0.0045	TWD	19.07	20.61
AUD/GBP	0.5560	0.0000	-0.0001	-0.0003	-0.0006	ZAR	11.1880	12.0873
USD Index	94.39							
EUR/USD	1.1661	0.0008	0.0023	0.0048	0.0097	EQUITIES		
USD/JPY	105.40	-0.04	-0.13	-0.29	-0.59		Index	
GBP/USD	1.2717	0.0002	0.0006	0.0013	0.0025	NZX50	11,705	
EUR/GBP	0.9170	0.0005	0.0014	0.0028	0.0059	ASX200	5,924	
						Dow Jones	26,759	
						S&P 500	3,248	
						FTSE100	5,899	
						DAX 30	12,643	
						Nikkei	23,346	
						COMMODITIES		
							USD	
						Dubai Light	41.22	
						Brent Crude	41.52	
						Gold	1,860.98	
						Silver	22.70	
						CRB Index	156.94	

INTEREST RATES	New Zealand		Australia	
	Borrow	Invest	Borrow	Invest
30 day bank bills	0.30%	0.26%	0.08%	0.08%
90 day bank bills	0.32%	0.28%	0.10%	0.06%
FRA 90d in 3mths	0.26%	0.23%	0.10%	0.05%
FRA 180d in 6mths	-0.04%	-0.06%	0.10%	0.06%
1 year swap*	0.15%	0.12%	0.08%	0.07%
2 year swap*	0.04%	0.01%	0.11%	0.10%
3 year swap*	0.04%	0.01%	0.14%	0.14%
5 year swap*	0.11%	0.08%	0.30%	0.29%
10 year swap*	0.48%	0.45%	0.77%	0.74%
10 year Govt bond		0.46%		0.80%

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

SOURCE: Bloomberg

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