



MARKET ALERT

Tuesday 13 October 2020 | www.bancorp.co.nz

CURRENCIES	Spot	6mths
NZD/USD	0.6647	-0.0001
NZD/AUD	0.9219	-0.0006
NZD/JPY	70.03	-0.18
NZD/EUR	0.5629	-0.0023
NZD/GBP	0.5089	-0.0006
NZD/CNH	4.4817	0.0599
AUD/USD	0.7210	0.0004
AUD/EUR	0.6106	-0.0022
EUR/USD	1.1809	0.0048
USD/CNH	7.1227	0.0909
GBP/USD	1.3062	0.0013
EUR/GBP	0.9041	0.0028

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.25%
90 day bills	0.28%	0.08%
2 year swap	0.03%	0.10%
10 year Govt	0.57%	0.85%

ECB COVID playbook

The ECB’s chief economist, Philip Lane, said the surge in COVID cases puts a question mark over the economic rebound; *“The next phase is going to be tougher. The big question is, how quickly can the current dynamic, with rising cases, be stabilised.”*

Against this, ECB board member Peter Kazimir, said that while inflation is not where the ECB would want it to be, the Bank will do *“all we can”* to get inflation to its target as *“we expect the state of low inflation, or even up to deflation, will not be permanent but only temporary.”*

Meanwhile, board member, Ignazio Visco, went even further by stating the ECB’s

current target of inflation below or close to 2.0% in the medium term was *“vague and difficult to understand.”* He then added the ECB was studying the recent shift in Fed strategy which puts more focus on bolstering the labour market and less on lowering inflation as *“we are discussing (amongst) ourselves on how to review our monetary policy strategy.”*

Taking this a step further, an ECB ‘source’ let slip that policymakers are reluctant to follow the Fed’s average inflation targeting after members expressed doubts about whether orthodox inflation theory still applied in economies where prices have long stagnated despite interest rates close to, or below, 0%.

BoE Governor, Andrew Bailey, reiterated that the risks to the UK economy are all on the downside, then, commenting on negative rates, Bailey noted that they don’t know how quickly they could be implemented as *“we are asking if it would be sensible to have them in toolbox,”* although *“we are not near addressing whether we should use negative rates.”*

The FT has reported that the EU has drawn up a ‘hit list’ of up to 20 large tech firms they will target with stricter rules to address their market dominance, while the OECD has drafted proposals for a USD100 billion global corporate tax revolution.

Financial markets were predominately quiet with European equities up 0.0-1.0%, although US markets put in a stronger session with the Dow up

1.20%, the S&P500 rising 2.20% and the Nasdaq rallying a staggering 3.70% on a gamma squeeze! Against this FX markets were quiet with the NZD/USD and AUD/USD both steady at 0.6650 and 0.7215, while the 10-year treasury is steady at 0.775%.

Brexit politics

PM Boris Johnson told Chancellor Angela Merkel there are *“significant gaps”* in Brexit trade talks that need to be bridged, although the FT has reported EU leaders will insist on tough enforcement rules for any UK trade deal, warning that PM Johnson’s move to override the Brexit treaty has shown Britain’s word cannot be trusted. Mr. Johnson was also busy implementing a three-tier COVID alert levels system across the UK.

The Senate Judiciary Committee has begun its nomination hearing to consider admitting Amy Coney Barrett to the US Supreme Court.

Following the PBoC’s move over the weekend to reduce the requirement that financial institutions will no longer need to set aside a 20% cash requirement when purchasing currency forwards for clients, the Chinese yuan fell from its 17-month high to 6.74 against the US dollar. PBoC Vice Governor, Fan Yifei, also stated that the deteriorating US-China relationship presents a huge risk to the technology supply chain security for China’s financial network.

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DAILY RATES

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FX	Spot Mid	FECs (mid)				Spot Mid		
		1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	71.50					CAD	0.8720	0.9459
NZD/USD	0.6647	0.0000	0.0000	-0.0001	0.0007	CHF	0.6046	0.6558
NZD/AUD	0.9219	-0.0001	-0.0003	-0.0006	0.0002	CNY	4.4840	4.8639
NZD/JPY	70.03	-0.02	-0.09	-0.18	-0.29	DKK	4.1897	4.5446
NZD/EUR	0.5629	-0.0004	-0.0012	-0.0023	-0.0040	FJD	1.4072	1.5264
NZD/GBP	0.5089	-0.0001	-0.0003	-0.0006	-0.0005	HKD	5.1513	5.5876
						KRW	763.53	828.21
AU TWI	61.20					MYR	2.7575	2.9911
AUD/USD	0.7210	0.0001	0.0002	0.0004	0.0006	NOK	6.0772	6.5920
AUD/NZD	1.0847	0.0001	0.0004	0.0007	-0.0003	SEK	5.8499	6.3454
AUD/JPY	75.97	-0.02	-0.07	-0.15	-0.34	SGD	0.9017	0.9781
AUD/EUR	0.6106	-0.0004	-0.0011	-0.0022	-0.0045	TWD	19.06	20.68
AUD/GBP	0.5520	0.0000	-0.0002	-0.0002	-0.0006	ZAR	10.9758	11.9056
USD Index	93.07					EQUITIES		
EUR/USD	1.1809	0.0008	0.0025	0.0048	0.0097	Index		
USD/JPY	105.37	-0.04	-0.13	-0.26	-0.55	NZX50	12,357	
GBP/USD	1.3062	0.0002	0.0008	0.0013	0.0025	ASX200	6,132	
EUR/GBP	0.9041	0.0005	0.0014	0.0028	0.0057	Dow Jones	28,877	
						S&P 500	3,549	
INTEREST		New Zealand		Australia		FTSE100	6,001	
RATES		Borrow	Invest	Borrow	Invest	DAX 30	13,138	
30 day bank bills		0.30%	0.26%	0.09%	0.09%	Nikkei	23,559	
90 day bank bills		0.30%	0.26%	0.10%	0.06%	COMMODITIES		
FRA 90d in 3mths		0.21%	0.18%	0.10%	0.05%	USD		
FRA 180d in 6mths		-0.03%	-0.05%	0.10%	0.06%	Dubai Light	40.16	
1 year swap*		0.12%	0.09%	0.08%	0.07%	Brent Crude	41.63	
2 year swap*		0.04%	0.02%	0.10%	0.09%	Gold	1,921.86	
3 year swap*		0.04%	0.02%	0.14%	0.13%	Silver	25.12	
5 year swap*		0.12%	0.09%	0.29%	0.29%	CRB Index	159.10	
10 year swap*		0.51%	0.49%	0.78%	0.78%			
10 year Govt bond			0.56%		0.85%			

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

SOURCE: Bloomberg

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