



BANCORP

BANCORP TREASURY SERVICES LIMITED

MARKET ALERT

Wednesday 14 October 2020 | www.bancorp.co.nz

CURRENCIES	Spot	6mths
NZD/USD	0.6643	-0.0001
NZD/AUD	0.9286	-0.0006
NZD/JPY	70.07	-0.18
NZD/EUR	0.5656	-0.0024
NZD/GBP	0.5135	-0.0006
NZD/CNH	4.4782	0.0596
AUD/USD	0.7154	0.0004
AUD/EUR	0.6091	-0.0022
EUR/USD	1.1745	0.0049
USD/CNH	7.1227	0.0903
GBP/USD	1.2937	0.0013
EUR/GBP	0.9079	0.0028

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.25%
90 day bills	0.28%	0.08%
2 year swap	0.05%	0.10%
10 year Govt	0.58%	0.85%

This is serious

In the 'this is getting serious' category, China is to ban imports of Australian coal. With Australia exporting AUD35 billion of metallurgical coal to China annually, this is a significant escalation in tensions between the two countries. It also caught the Australians off guard, with Trade Minister, Simon Birmingham, stating *"We are making approaches to Chinese authorities in relation to this speculation."*

Maybe it's because the Chinese are worried about their trade numbers, which saw their imports blow out. In USD terms, imports jumped 13.2%

from a year earlier against an expected +0.4% increase, while exports increased 9.9% in 12 months against the +10.0% forecast. All up, China had a USD37 billion trade surplus for the month of September against an expected USD60 billion surplus.

Inflation — that thing that everyone talks about but doesn't really exist — well, it's making a comeback! Annual inflation rate in the US edged up to 1.4% in September from 1.3% in August to reach its highest level since March. While a positive, it is still some way short of the Fed's 2% target.

In Germany, their ZEW October economic indicator collapsed to 56.1 from August's 20 year high of 77.4, and well below market expectations of 73, as investors voiced concerns about the recent sharp rise in the number of COVID-19 cases and the prospect of the UK leaving the EU without a trade deal.

The UK unemployment rate increased to 4.5% in the three months to August from 4.1% in the previous period. The headline print was above market expectations of 4.3%.

This is a little confusing but, the IMF revised higher its global GDP contraction for 2020 to 4.4% from 4.9% but warned the global economy 'remains prone to setbacks.' It also predicted that national debt in advanced economies will reach 125% of GDP by the end of 2021, with emerging market debt to rise to 65% of GDP. As a guide, NZ debt is

due to reach 54% in 2024. Finally, the IMF warned of a 'sharp adjustment' in financial markets despite 'remarkable' recovery this year ... Is this shot aimed at global equity markets?

News in brief

The UK's chief medical officer says its new 3-tier lockdown strategy will be 'not sufficient' to limit the spread of COVID-19.

China's embassy in the US announced that China opposes US arms sales to Taiwan after 3 of the planned 7 weapon sales were approved by the US State Department.

NZ retail card spending data highlighted a bounce out of the Auckland lockdown with spending up +5.4% on the month, an improvement on the previous 7.9% contraction.

Reuter's monthly Tankan report for October highlighted a slight improvement in manufacturing sentiment -26 from September's -29, while the service-sector index was at -16 in October vs -18 in September.

Markets were quiet overnight with equity markets flat-to-off-a-touch (that is a technical term). The NZD/USD and AUD/USD are at 0.6645 and 0.7155 respectively, with the NZD/AUD up to 0.9285 after the AUD weakened further on the coal dispute. The 10 year year treasury is at 0.76%.

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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	71.66					CAD 0.8728	0.9400
NZD/USD	0.6643	0.0000	0.0000	-0.0001	0.0006	CHF 0.6075	0.6542
NZD/AUD	0.9286	-0.0001	-0.0004	-0.0006	0.0000	CNY 4.4812	4.8260
NZD/JPY	70.07	-0.02	-0.09	-0.18	-0.30	DKK 4.2098	4.5337
NZD/EUR	0.5656	-0.0004	-0.0013	-0.0024	-0.0041	FJD 1.4092	1.5177
NZD/GBP	0.5135	-0.0001	-0.0003	-0.0006	-0.0005	HKD 5.1479	5.5440
						KRW 763.29	822.03
AU TWI	60.90					MYR 2.7612	2.9736
AUD/USD	0.7154	0.0001	0.0002	0.0004	0.0006	NOK 6.1405	6.6129
AUD/NZD	1.0769	0.0001	0.0004	0.0007	0.0000	SEK 5.8642	6.3154
AUD/JPY	75.47	-0.02	-0.07	-0.15	-0.33	SGD 0.9036	0.9731
AUD/EUR	0.6091	-0.0004	-0.0011	-0.0022	-0.0045	TWD 19.09	20.56
AUD/GBP	0.5530	0.0000	-0.0002	-0.0002	-0.0006	ZAR 10.9492	11.7917
USD Index	93.53					EQUITIES	
EUR/USD	1.1745	0.0008	0.0026	0.0049	0.0097		Index
USD/JPY	105.50	-0.04	-0.13	-0.26	-0.55	NZX50	12,454
GBP/USD	1.2937	0.0002	0.0008	0.0013	0.0025	ASX200	6,196
EUR/GBP	0.9079	0.0005	0.0014	0.0028	0.0057	Dow Jones	28,629
						S&P 500	3,507
						FTSE100	5,970
						DAX 30	13,019
						Nikkei	23,602
						COMMODITIES	
							USD
						Dubai Light	40.03
						Brent Crude	42.45
						Gold	1,893.62
						Silver	24.15
						CRB Index	159.74

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	0.30%	0.26%	0.10%	0.06%
FRA 90d in 3mths	0.24%	0.19%	0.10%	0.05%
FRA 180d in 6mths	-0.01%	-0.03%	0.10%	0.06%
1 year swap*	0.13%	0.10%	0.08%	0.07%
2 year swap*	0.06%	0.03%	0.10%	0.09%
3 year swap*	0.06%	0.03%	0.13%	0.12%
5 year swap*	0.13%	0.10%	0.28%	0.27%
10 year swap*	0.51%	0.49%	0.76%	0.75%
10 year Govt bond		0.57%		0.85%

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

SOURCE: Bloomberg

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