



MARKET ALERT

Wednesday 21 October 2020 | www.bancorp.co.nz

CURRENCIES	Spot	6mths
NZD/USD	0.6591	0.0001
NZD/AUD	0.9329	-0.0006
NZD/JPY	69.50	-0.16
NZD/EUR	0.5573	-0.0022
NZD/GBP	0.5093	-0.0005
NZD/CNH	4.3908	0.0597
AUD/USD	0.7065	0.0005
AUD/EUR	0.5974	-0.0020
EUR/USD	1.1827	0.0049
USD/CNH	7.1227	0.0898
GBP/USD	1.2943	0.0013
EUR/GBP	0.9138	0.0028

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.25%
90 day bills	0.27%	0.07%
2 year swap	0.01%	0.07%
10 year Govt	0.53%	0.76%

Don't blame me ... monetary policy has its limits

The RBNZ Governor, Adrian Orr, announced yesterday that he is aware of asset price inflation and limits of the monetary policy, which is good to know!

In acknowledging that the monetary policy has its limits, Mr Orr also emphasised that the RBNZ needs to operate with a medium-term focus, that the RBNZ has plenty of room left in its QE program, and that it would prefer to deal with inflation rather than battle deflation. Amen to that my economic brother!

The NZIER quarterly survey for Q3 highlighted that business confidence has improved with the 'own trading activity' index showing a strong rebound to a net 1.0% increase, up almost 40.0% from the Q2's -37.0%, and, interestingly, a net 16.0% of firms were looking to increase headcount in Q4.

Overnight the GDT auction saw the overall index increase 0.4% and WMP rise 0.3%.

The RBA's October meeting minutes highlighted that both unemployment and underemployment were expected to remain high for an extended period, the recovery was likely to be slow and uneven, and inflation was expected to remain subdued for some time.

In acknowledging that fiscal and monetary support would be required for some time given the outlook for the economy and the prospect of high unemployment, the members discussed the options of reducing its cash rate and the 3-year yield targets towards zero, without going negative, and buying government bonds further along the yield curve. The members also discussed the implications of this for the Australian dollar exchange rate.

China's informal verbal prohibitions, asking importers not to buy Australian coal and cotton, could breach rules set out by the World Trade Organization.

The US has blacklisted two Chinese men and six Chinese entities for having dealt

with Iranian shipping companies helping them to evade US sanctions.

Stimulus package is back on the cards

Risk assets got a strong boost in the last few hours as the hopes of a stimulus deal out of the US improved on positive headlines. House of Representatives Speaker, Nancy Pelosi, said she was "optimistic" a deal could be done by the deadline at the close of play Tuesday (US time, i.e. sometime in the next few hours) and there had been "changes" over the weekend.

Senator McConnell added to the positive sentiment when he said "if a presidentially supported bill clears the House at some point we'll bring it to the floor." Asked whether he would support it, McConnell said "we'd have to see what it was first." So maybe not? Either way the next few hours and days will be crucial for a stimulus, as will the looming US election.

Risk benefitted as the stimulus talks progressed, which led to US equity indices rallying 1.0-2.0% while the USD slipped and Treasury bond yields crept up, with the 10 year yield reaching a 4 month high of 0.80%.

The NZD/USD moved around overnight reaching a low of 0.6553, following the AUD/USD after the RBA's bearish minutes, before benefiting from the risk on sentiment and consolidating around 0.6590 at the time of writing.

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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	71.02					CAD	0.8648	0.9270
NZD/USD	0.6591	0.0000	0.0000	0.0001	0.0009	CHF	0.5976	0.6405
NZD/AUD	0.9329	-0.0001	-0.0003	-0.0006	0.0001	CNY	4.4006	4.7171
NZD/JPY	69.50	-0.02	-0.08	-0.16	-0.27	DKK	4.1477	4.4460
NZD/EUR	0.5573	-0.0004	-0.0012	-0.0022	-0.0038	FJD	1.4106	1.5121
NZD/GBP	0.5093	-0.0001	-0.0003	-0.0005	-0.0003	HKD	5.1080	5.4753
						KRW	750.25	804.22
AU TWI	59.60					MYR	2.7249	2.9208
AUD/USD	0.7065	0.0001	0.0003	0.0005	0.0009	NOK	6.1069	6.5461
AUD/NZD	1.0719	0.0001	0.0004	0.0007	-0.0001	SEK	5.7609	6.1752
AUD/JPY	74.50	-0.02	-0.06	-0.13	-0.29	SGD	0.8942	0.9585
AUD/EUR	0.5974	-0.0003	-0.0010	-0.0020	-0.0041	TWD	18.96	20.32
AUD/GBP	0.5459	0.0000	-0.0001	-0.0002	-0.0004	ZAR	10.8433	11.6232
USD Index	93.06							
EUR/USD	1.1827	0.0008	0.0025	0.0049	0.0097	EQUITIES		
USD/JPY	105.45	-0.04	-0.13	-0.26	-0.55		Index	
GBP/USD	1.2943	0.0002	0.0008	0.0013	0.0026	NZX50	12,462	
EUR/GBP	0.9138	0.0005	0.0014	0.0028	0.0057	ASX200	6,185	
						Dow Jones	28,437	
						S&P 500	3,465	
						FTSE100	5,889	
						DAX 30	12,737	
						Nikkei	23,567	
						COMMODITIES		
							USD	
						Dubai Light	41.03	
						Brent Crude	43.06	
						Gold	1,910.64	
						Silver	24.79	
						CRB Index	161.83	

INTEREST RATES	New Zealand		Australia	
	Borrow	Invest	Borrow	Invest
30 day bank bills	0.29%	0.25%	0.08%	0.08%
90 day bank bills	0.29%	0.25%	0.09%	0.05%
FRA 90d in 3mths	0.15%	0.13%	0.06%	0.01%
FRA 180d in 6mths	-0.06%	-0.08%	0.06%	0.02%
1 year swap*	0.09%	0.06%	0.06%	0.02%
2 year swap*	0.03%	0.00%	0.09%	0.05%
3 year swap*	0.02%	0.00%	0.10%	0.09%
5 year swap*	0.10%	0.07%	0.26%	0.24%
10 year swap*	0.47%	0.45%	0.73%	0.72%
10 year Govt bond		0.52%		0.76%

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

SOURCE: Bloomberg

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