



MARKET ALERT

Thursday 12 November 2020 | www.bancorp.co.nz

CURRENCIES	Spot	6mths
NZD/USD	0.6881	0.0001
NZD/AUD	0.9452	-0.0009
NZD/JPY	72.61	-0.18
NZD/EUR	0.5844	-0.0024
NZD/GBP	0.5207	-0.0006
NZD/CNH	4.5535	0.0609
AUD/USD	0.7280	0.0007
AUD/EUR	0.6183	-0.0020
EUR/USD	1.1774	0.0050
USD/CNH	7.1227	0.0879
GBP/USD	1.3215	0.0015
EUR/GBP	0.8910	0.0028

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.10%
90 day bills	0.28%	0.02%
2 year swap	0.22%	0.08%
10 year Govt	0.87%	0.99%

The RBNZ has spoken

But they won't like the markets' answer ... It is probably fair to say that yesterday's *Monetary Policy Review* did not generate the market reaction that the Governor wanted!

While there were no surprises after they left the OCR unchanged, maintained the LSAP, and announced the new Funding for Lending Programme (FLP), the fact it will be for an underwhelming NZD28 billion, the ultimate question has to be, will this change the lending behaviour of the New Zealand banks?

Market participants were expecting a negative tone and rhetoric from the RBNZ, but perhaps it just wasn't pessimistic enough! As the Governor, Adrian Orr, said *"domestic economic activity has been more resilient than earlier assumed"* and with the additional comment that it's *"too early to tell if (a) negative cash rate is needed or not,"* the NZD and local interest rates surged to intra-month highs, while the local banks were quick to scale back, and in some cases, completely take out, their negative interest rate calls.

The NZD/USD is at 0.6880 this morning, and while the RBNZ has managed to talk the currency up, they did acknowledge this, stating *"International prices for New Zealand's exports have remained resilient, although export returns continue to be partly offset by the New Zealand dollar exchange rate."*

Interest rates have also reacted strongly, with the 2-year swap up 16 basis points on the week and the 10-year up 28 points, which begs the question, how long before we see the return of the carry trade? And while the RBNZ still retains its ability to provide additional stimulus, the market has fully unwound expectations of NZ rates from going into negative territory, with pricing suggesting the OCR will fall to 0.10% by next August.

In other, slightly unrelated news, the RBNZ delayed implementing

increases in bank capital adequacy requirements, while they have also begun a consultation on reinstating LVR restrictions on high-risk lending, which are expected to be reapplied in March.

In comparison ...

In contrast to Mr Orr's performance, ECB President, Christine Lagarde, was talking down the euro ahead of next months' ECB meeting, stating the *"Duration of stimulus matters as well as the level."* With regard to the euro, she added, *"Developments in FX may negatively impact the path of inflation,"* and that *"Fiscal policy has to remain at the centre of the stabilization effort."* This saw the EUR/USD ease 0.3% to 1.1770.

Hedge fund manager, Bill Ackman, acknowledged that markets have become too complacent about COVID and he's betting on it — hedging his equity exposure with insurance against corporate defaults. He made this bet 8-months ago, making USD2.6 billion!

China's Singles Day generated USD75 billion during the world's largest shopping binge, easily surpassing 2019's USD38 billion after Alibaba added several days.

Global equity markets were again positive, up 1.0%-2.0%, while bond markets cemented their recent gains for the 10-year benchmarks to be yielding 0.98% in the US, -0.51% in Germany, 1.00% in Australia and 0.89% in NZ.

**BANCORP**

BANCORP TREASURY SERVICES LIMITED

DAILY RATES

Thursday 12 November 2020 | www.bancorp.co.nz

FX	Spot	FECs (mid)				Spot Mid		
	Mid	1mth	3mths	6mths	12mths	NZD/...	AUD/...	
NZ TWI	73.39					CAD	0.8986	0.9506
NZD/USD	0.6881	0.0000	0.0000	0.0001	0.0002	CHF	0.6311	0.6677
NZD/AUD	0.9452	-0.0001	-0.0005	-0.0009	-0.0014	CNY	4.5629	4.8274
NZD/JPY	72.61	-0.02	-0.10	-0.18	-0.36	DKK	4.3514	4.6036
NZD/EUR	0.5844	-0.0004	-0.0013	-0.0024	-0.0048	FJD	1.4481	1.5320
NZD/GBP	0.5207	-0.0001	-0.0003	-0.0006	-0.0009	HKD	5.3357	5.6450
						KRW	765.89	810.30
AU TWI	61.10					MYR	2.8440	3.0088
AUD/USD	0.7280	0.0001	0.0004	0.0007	0.0013	NOK	6.2400	6.6018
AUD/NZD	1.0580	0.0002	0.0006	0.0010	0.0016	SEK	5.9489	6.2937
AUD/JPY	76.82	-0.01	-0.06	-0.12	-0.27	SGD	0.9283	0.9821
AUD/EUR	0.6183	-0.0003	-0.0011	-0.0020	-0.0041	TWD	19.65	20.79
AUD/GBP	0.5509	0.0000	-0.0001	-0.0001	-0.0002	ZAR	10.7504	11.3736
USD Index	93.05							
EUR/USD	1.1774	0.0008	0.0028	0.0050	0.0100	EQUITIES		
USD/JPY	105.53	-0.04	-0.15	-0.27	-0.56		Index	
GBP/USD	1.3215	0.0002	0.0009	0.0015	0.0028	NZX50	12,666	
EUR/GBP	0.8910	0.0004	0.0014	0.0028	0.0057	ASX200	6,450	
						Dow Jones	29,467	
						S&P 500	3,576	
						FTSE100	6,382	
						DAX 30	13,216	
						Nikkei	25,350	
						COMMODITIES		
							USD	
						Dubai Light	43.57	
						Brent Crude	43.99	
						Gold	1,864.33	
						Silver	24.24	
						CRB Index	163.39	

INTEREST RATES	New Zealand		Australia	
	Borrow	Invest	Borrow	Invest
30 day bank bills	0.29%	0.25%	0.02%	0.02%
90 day bank bills	0.30%	0.26%	0.04%	0.00%
FRA 90d in 3mths	0.26%	0.23%	0.05%	0.00%
FRA 180d in 6mths	0.23%	0.20%	0.06%	0.02%
1 year swap*	0.23%	0.20%	0.04%	0.03%
2 year swap*	0.23%	0.20%	0.08%	0.07%
3 year swap*	0.26%	0.23%	0.13%	0.12%
5 year swap*	0.39%	0.37%	0.32%	0.31%
10 year swap*	0.85%	0.83%	0.90%	0.89%
10 year Govt bond		0.85%		0.99%

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

SOURCE: Bloomberg

This document has been prepared by Bancorp Treasury Services Limited ("BTSL"). Whilst all reasonable care has been taken to ensure the facts stated are accurate and the opinions given are fair and reasonable, neither BTSL nor any of its directors, officers or employees shall in any way be responsible for the contents. No liability is assumed by BTSL, its directors, officers or employees for action taken or not taken on the basis of this document.