

Market Alert

Thursday 26 November 2020

CURRENCIES	Spot	6mths
NZD/USD	0.7014	0.0000
NZD/AUD	0.9524	-0.0011
NZD/JPY	73.21	-0.20
NZD/EUR	0.5884	-0.0025
NZD/GBP	0.5240	-0.0006
NZD/CNH	4.6047	0.0639
AUD/USD	0.7365	0.0008
AUD/EUR	0.6179	-0.0020
EUR/USD	1.1920	0.0052
USD/CNH	7.1227	0.0912
GBP/USD	1.3386	0.0016
EUR/GBP	0.8904	0.0028

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.10%
90 day bills	0.25%	0.02%
2 year swap	0.29%	0.08%
10 year Govt	0.96%	0.93%

RBNZ in damage control

First up was the RBNZ's semi-annual *Financial Stability Report*, which started with the usual warning that "Significant downside risks remain" although this was immediately countered by "the New Zealand economy has been relatively resilient" and "unemployment (has been) lower than expected" which was then followed by the classics: that "the financial system hasn't been tested as severely as (it) could have been" and "low rates ensure (the) NZD remains competitive."

Then, at the press conference, it was all about the housing market, following on from the Finance Minister's letter.

Mr Orr stated he is "already taking housing prices into account in monetary policy decisions" and that he "intends to work with the government on (the) long term goals of housing affordability" to which, "debt to income (ratio's) may be an option." This point was then highlighted by the release of the October new home lending numbers, which showed a 6.3% rise to NZD7.78 billion for the month of October ... a new record!

In the aftermath, Mr Orr noted that companies may be tested as fiscal stimulus is withdrawn, which will probably see increased loan impairments for banks, while Deputy Governor, Christian Hawkesby, said if the RBNZ had not eased, the NZD would be 5-10% higher.

To summarise, the RBNZ will reimpose mortgage lending restrictions from March and, they would like to add debt-to-income restrictions to their macroprudential tool kit, a move that would require government approval!

Pause in recent market optimism

International equities were mildly higher overnight although the Dow and S&P 500 retreated from their record highs amid defensive positioning. Bond yields are off a touch, with the US 10-year yield at 0.86%, while the RBNZ's actions helped the NZD/USD climb to 0.7015 and the NZD/AUD to 0.9525. The AUD/USD is at 0.7365.

US Q3 GDP came in bang on expectations at +33.1% against Q2's -31.4% contraction, while durable goods orders grew +1.3% against +0.9% expected.

October's US data showed new orders for manufactured durable goods increased 1.3%, while personal income fell by 0.7%, which is probably not that surprising when one considers the number of Americans filing for unemployment benefits increased to 778k for the week ending 21 November. More than 20 million Americans are receiving jobless benefits according to the Labor Department. On the positive side, US corporate profits rose 27.5% in Q3, rebounding from Q2's 11.7% plunge.

UK Chancellor, Rishi Sunak, delivered his *Spending Review* while the Office for Budget Responsibility released its latest projections for the British economy. Sunak said the government would borrow GBP394 billion this year, or 19% of GDP, which will be its highest level of borrowing in peacetime history.

UK GDP is set to contract 11.3% in 2020, the most for the past 300 years – yes, 300 years – with output only returning to pre-pandemic levels by the end of 2022.

Finally, BoE Governor, Andrew Bailey, stated that the failure to secure a new trade deal with the EU before the deadline would do more damage to the UK economy over the long run than the COVID pandemic. *Ouch!*



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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	74.22					CAD	0.9117	0.9573
NZD/USD	0.7014	0.0000	0.0000	0.0000	0.0000	CHF	0.6370	0.6689
NZD/AUD	0.9524	-0.0002	-0.0006	-0.0011	-0.0018	CNY	4.6141	4.8449
NZD/JPY	73.21	-0.02	-0.11	-0.20	-0.39	DKK	4.3791	4.5982
NZD/EUR	0.5884	-0.0004	-0.0014	-0.0025	-0.0050	FJD	1.4578	1.5307
NZD/GBP	0.5240	-0.0001	-0.0004	-0.0006	-0.0011	HKD	5.4355	5.7074
						KRW	775.84	814.65
AU TWI	61.30					MYR	2.8499	2.9924
AUD/USD	0.7365	0.0002	0.0005	0.0008	0.0014	NOK	6.1954	6.5054
AUD/NZD	1.0500	0.0002	0.0006	0.0012	0.0020	SEK	5.9629	6.2612
AUD/JPY	76.87	-0.01	-0.07	-0.12	-0.26	SGD	0.9397	0.9867
AUD/EUR	0.6179	-0.0003	-0.0010	-0.0020	-0.0040	TWD	19.99	20.99
AUD/GBP	0.5502	0.0000	-0.0001	0.0000	-0.0001	ZAR	10.6311	11.1630
USD Index	91.98							
EUR/USD	1.1920	0.0008	0.0028	0.0052	0.0102	EQUITIES		
USD/JPY	104.38	-0.04	-0.16	-0.28	-0.56			Index
GBP/USD	1.3386	0.0002	0.0010	0.0016	0.0027	NZX50		12,668
EUR/GBP	0.8904	0.0004	0.0014	0.0028	0.0058	ASX200		6,683
						Dow Jones		29,887
						S&P 500		3,627
						FTSE100		6,391
						DAX 30		13,290
						Nikkei		26,297
						COMMODITIES		
								USD
						Dubai Light		46.91
						Brent Crude		48.89
						Gold		1,807.47
						Silver		23.34
						CRB Index		170.81

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	0.27%	0.23%	0.04%	0.00%
FRA 90d in 3mths	0.27%	0.24%	0.04%	-0.01%
FRA 180d in 6mths	0.30%	0.27%	0.06%	0.02%
1 year swap*	0.21%	0.18%	0.04%	0.02%
2 year swap*	0.31%	0.28%	0.08%	0.07%
3 year swap*	0.36%	0.33%	0.14%	0.13%
5 year swap*	0.53%	0.50%	0.34%	0.34%
10 year swap*	0.99%	0.96%	0.90%	0.89%
10 year Govt bond		0.95%		0.93%

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

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