

Market Alert

Thursday 17 December 2020

CURRENCIES	Spot	6mths
NZD/USD	0.7078	0.0002
NZD/AUD	0.9362	-0.0011
NZD/JPY	73.38	-0.18
NZD/EUR	0.5819	-0.0025
NZD/GBP	0.5252	-0.0006
NZD/CNH	4.6100	0.0527
AUD/USD	0.7561	0.0011
AUD/EUR	0.6216	-0.0019
EUR/USD	1.2164	0.0056
USD/CNH	7.1227	0.0726
GBP/USD	1.3479	0.0019
EUR/GBP	0.9024	0.0029

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.10%
90 day bills	0.25%	0.02%
2 year swap	0.27%	0.11%
10 year Govt	0.88%	0.96%

When is a central bank not a central bank?

When it joins a global group focused on fighting climate change! Does climate change really pose a risk to the global financial system?

In 'proper' central bank news, the Fed left rates unchanged at 0.00%-0.25% and repeated that they remain "committed to using its full range of tools to support the US economy," emphasising it will continue the pace of its bond buying programme "until substantial further progress has been made toward the Committee's maximum employment and

price stability goals." Interestingly, while it announced it will continue to buy USD80 billion of Treasuries and USD40 billion of MBS each month, there will be no change to the weighted average maturity of its portfolio. Its Dot plot graph remains at zero until the end of 2023.

US congressional negotiators are 'closing in' on the USD900 billion COVID bill after Mitch McConnell announced "major headway has been made on a stimulus deal." The new deal will include a new round of stimulus cheques of USD600-USD700 per person.

US retail sales sank 1.1% on the month to November, it's largest fall in 7 months and well down on the forecast 0.3% drop. With October's numbers also revised down 0.1%, it highlights US consumer spending is slowing considerably.

In other data, the US Markit manufacturing PMI was little changed at 56.5 in December from 56.7 in November while manufacturers' and trade inventories rose by 0.7%.

The GBP hit a 30 month high against the USD on signs of progress in Brexit negotiations after EU President, Ursula von der Leyen, announced Britain and the EU have moved closer to sealing an agreement. While one issue remains outstanding, that of fishing rights, there is "a path to an agreement." In other currency news, the US has declared

Switzerland is a currency manipulator – again! So, what did all this mean for markets? The short answer is, not a lot! US equities are flat, European indices were up a 0.5%-1.5%, and the US 10-year yield is at 0.91%. The NZD/USD and AUD/USD are flat at 0.7060 and 0.7550, while NZD/AUD eased a touch to 0.9360.

China has initiated demand-side reforms over stimulus measures to boost domestic consumption with an emphasis on addressing structural issues such as unequal income distribution, improving the social safety net, and reforming land-use and ownership policies.

Leading the way

The NZ half year economic and fiscal update highlighted lower budget deficits over the next four years as a stronger tax take and lower expenses bolster the government's finances. The improved performance, driven by a stronger economic recovery from COVID, supported its forward guidance with growth forecast to be 1.5% to June 2021 while unemployment is expected to peak at 6.8% in 2022 before declining to 4.0% over the next 3 years. In a backward looking indicator, we have NZ Q3 GDP out this morning, which everyone will ignore.

Bitcoin surpassed USD20,000 for the first time after reports that Ruffer Investments purchased GBP550 million last month.



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