

Market Alert

Wednesday 17 February 2021

CURRENCIES	Spot	6mths
NZD/USD	0.7212	-0.0002
NZD/AUD	0.9291	-0.0009
NZD/JPY	76.36	-0.16
NZD/EUR	0.5954	-0.0024
NZD/GBP	0.5248	-0.0004
NZD/CNH	4.6346	0.0575
AUD/USD	0.7762	0.0006
AUD/EUR	0.6408	-0.0019
EUR/USD	1.2113	0.0046
USD/CNH	7.1227	0.0812
GBP/USD	1.3918	0.0008
EUR/GBP	0.8703	0.0028

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.10%
90 day bills	0.29%	0.02%
2 year swap	0.36%	0.08%
10 year Govt	1.43%	1.32%

It's all about the yield

Overnight the big release was Eurozone Q4 GDP which headlined with a -0.6 contraction for the quarter, slightly better than the -0.7% estimate. The print followed the record 12.4% expansion in Q3 and gave rise to an annualised -5.0% contraction for 2020. We also saw Eurozone employment fall 2.0% for the year, but against this the German ZEW Indicator of Economic Sentiment edged up 9.4 points to 71.2 in February.

Fed members, Esther George and Michelle Bowman, also made speeches, although there was nothing new.

Esther George commented, *"the virus is the driver of the economy right now (although the) outlook is pretty optimistic for 2H of 2020."* Although she then added *"it is clear that the mix of mortgage securities and treasuries will continue until the economy is through this critical phase. The rise in long term yields so far is not concerning and does not reflect tightening financial conditions."*

Which is interesting, as the 10 year US treasury yield firmed to 1.285% – its highest level in 11 months.

Initially, in the Asian time zone yesterday, the increasing yield supported risk currencies with the NZD/USD rallying to 0.7269 while the AUD/USD topped out at 0.7806, but selling pressures asserted themselves as the USD index found support on the US open, with both crosses easing back to 0.7210 and 0.7760 respectively. In amongst this, equity bourses were predominately flat to off a touch. Once again, the GDT dairy auction this morning saw a rise, being up 3.0% with WMP up 4.3% and butter up 2.0%.

Goldman Sachs estimate that US 'forced savings' will rise this year. By their estimates, households have already accumulated about USD1.5 trillion in 'excess' or 'forced' savings through COVID-19, and they, *"expect that to rise to about USD2.4 trillion, or 11% of GDP, by the time that normal economic life is restored around mid-year."* They then

expect 20% of the excess savings will be spent in the first year of the economy re-opening.

The minutes from the RBA's February meeting did not tell us anything we didn't already know; the cash rate is to be kept at 0.10% as long as is necessary, the RBA will not raise the cash rate until inflation is sustainably in the 2.0-3.0% target band, the RBA does not expect to reach its targets for unemployment and inflation until 2024 at the earliest and a sustained period of labour market tightness is needed to lift wage growth and inflation.

The Nikkei, having broken back above the 30,000 level last seen in 1990, extended its gains by 2% in the final hour of trading. Yes, you read that correctly, the Nikkei has just recovered its losses from September 1990 although it is still some 21% off its December 1989 high! This rally will likely get further support from BoJ Governor, Haruhiko Kuroda's, overnight comments *"it will be hard for inflation to hit price target of 2% even by 2023"* implying further stimulus in the coming years.



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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	74.90					CAD	0.9147	0.9844
NZD/USD	0.7212	0.0000	-0.0001	-0.0002	-0.0005	CHF	0.6434	0.6925
NZD/AUD	0.9291	-0.0001	-0.0004	-0.0009	-0.0021	CNY	4.6576	5.0130
NZD/JPY	76.36	-0.02	-0.07	-0.16	-0.41	DKK	4.4275	4.7654
NZD/EUR	0.5954	-0.0003	-0.0011	-0.0024	-0.0052	FJD	1.4626	1.5742
NZD/GBP	0.5248	-0.0001	-0.0002	-0.0004	-0.0011	HKD	5.5909	6.0175
						KRW	798.22	859.14
AU TWI	64.10					MYR	2.9262	3.1495
AUD/USD	0.7762	0.0001	0.0003	0.0006	0.0013	NOK	6.0816	6.5457
AUD/NZD	1.0763	0.0002	0.0005	0.0011	0.0024	SEK	5.9803	6.4367
AUD/JPY	82.18	-0.01	-0.04	-0.09	-0.25	SGD	0.9571	1.0301
AUD/EUR	0.6408	-0.0003	-0.0009	-0.0019	-0.0041	TWD	20.19	21.74
AUD/GBP	0.5577	0.0000	0.0000	0.0001	0.0001	ZAR	10.5846	11.3923
USD Index	90.53							
EUR/USD	1.2113	0.0007	0.0022	0.0046	0.0098	EQUITIES		
USD/JPY	105.88	-0.02	-0.09	-0.20	-0.50			Index
GBP/USD	1.3918	0.0001	0.0005	0.0008	0.0021	NZX50		12,611
EUR/GBP	0.8703	0.0004	0.0013	0.0028	0.0057	ASX200		6,917
						Dow Jones		31,544
						S&P 500		3,938
						FTSE100		6,749
						DAX 30		14,065
						Nikkei		30,468
						COMMODITIES		
								USD
						Dubai Light		62.08
						Brent Crude		63.20
						Gold		1,797.18
						Silver		27.26
						CRB Index		199.03

INTEREST RATES	New Zealand		Australia	
	Borrow	Invest	Borrow	Invest
30 day bank bills	0.28%	0.24%	0.02%	0.02%
90 day bank bills	0.31%	0.27%	0.04%	0.00%
FRA 90d in 3mths	0.29%	0.26%	0.05%	0.00%
FRA 180d in 6mths	0.34%	0.31%	0.08%	0.04%
1 year swap*	0.31%	0.27%	0.04%	0.03%
2 year swap*	0.38%	0.35%	0.08%	0.07%
3 year swap*	0.52%	0.49%	0.16%	0.15%
5 year swap*	0.88%	0.85%	0.57%	0.55%
10 year swap*	1.56%	1.54%	1.41%	1.39%
10 year Govt bond		1.41%		1.32%

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

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