

# Market Alert

Friday 5 February 2021

CURRENCIES	Spot	6mths
NZD/USD	0.7157	-0.0001
NZD/AUD	0.9421	-0.0010
NZD/JPY	75.48	-0.15
NZD/EUR	0.5982	-0.0024
NZD/GBP	0.5248	-0.0004
NZD/CNH	4.6331	0.0576
AUD/USD	0.7596	0.0007
AUD/EUR	0.6349	-0.0019
EUR/USD	1.1963	0.0047
USD/CNH	7.1227	0.0810
GBP/USD	1.3663	0.0010
EUR/GBP	0.8756	0.0028

  

INT RATES	NZ	Australia
OCR/Cash	0.25%	0.10%
90 day bills	0.28%	0.01%
2 year swap	0.38%	0.07%
10 year Govt	1.37%	1.23%

## Unchanged

The BoE left its bank rate unchanged at 0.10% with all members in agreement via a 9-0 vote. The major take-aways were GDP and CPI, which are anticipated to recover strongly in 2H 21, driven by the vaccine rollout, although the BoE *“does not intend to tighten monetary policy at least until there is clear evidence of achieving the 2.0% inflation target sustainably.”*

BoE Governor, Andrew Bailey, warned post-meeting that *“if the outlook for inflation weakens, (the) MPC will take whatever action necessary,”* while the

central bank also took a page out of the Adrian Orr book on negative rates and announced on-shore banks will need six months to prepare for negative rates. So, a fiver each way then, Gov'nor!

Meanwhile, the ECB extended liquidity of its temporary swap and repo lines with non-euro central banks for another nine months until March 2022. Much like the Fed's USD swap lines, these are mainly to ensure that non-euro area central banks have sufficient euro liquidity as the COVID-19 crisis continues to play out.

In the US, overnight data was supportive for equity markets after initial claims printed at 779k against the 830k estimate, while the previous weeks number was also revised down to 779k from 830k. Continuing claims were also lower at 4,592k against the 4,700k estimate. To add to the good news, US December factory orders were stronger at +1.1% against the +0.7% expected.

So, with all this good news you would expect 'risk' to be driving markets higher ... and it did, sort of! European and US equities are broadly up 0.5-1.0%, while Gold eased below USD1,800 for the first time since December as higher interest rates saw increased support for a stronger US dollar. This saw the EUR/USD fall below the 1.20 level to 1.1970, the AUD/USD ease to 0.7600, and the NZD/USD fall to 0.7155.

The short rationale for the stronger USD is that the US economy is closing the COVID-19 gap quicker than anywhere else and that means it will be one of the first countries to hike rates, as highlighted by today's data and the 5-year to 30-year treasury hitting its steepest level since 2015.

And, with President Biden pushing for a big stimulus spend, that is increasingly looking like it will pass, momentum is building. Counter to this, and a fact that is getting overlooked, is that the Fed will let the economy run hot before they even contemplate raising rates, and QE will continue to weigh on the USD after Fed member Bostic stated it is *“not my expectation that Fed would need to adjust bond purchases this year.”*

Ultimately, as we have said many times before, as the financial markets are unable to maintain flat positions, we will continue to see USD buy-sell 'tensions' play out for most of 2021.

## 'Hogan's Heroes' to the rescue

In a classic case of Sergeant Schultz, *“I see nothing, I know nothing,”* consultancy firm, McKinsey, has denied any wrong doing or liability, but it did fire two partners and will pay a USD574 million to settle opioid claims by US states.



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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	0.9182	0.9746
NZD/USD	0.7157	0.0000	0.0000	-0.0001	-0.0002	CHF	0.6467	0.6864
NZD/AUD	0.9421	-0.0001	-0.0005	-0.0010	-0.0021	CNY	4.6313	4.9159
NZD/JPY	75.48	-0.02	-0.07	-0.15	-0.38	DKK	4.4483	4.7217
NZD/EUR	0.5982	-0.0004	-0.0012	-0.0024	-0.0052	FJD	1.4656	1.5557
NZD/GBP	0.5248	-0.0001	-0.0002	-0.0004	-0.0011	HKD	5.5477	5.8886
						KRW	801.68	850.95
AU TWI	62.90					MYR	2.9202	3.0997
AUD/USD	0.7596	0.0001	0.0004	0.0007	0.0015	NOK	6.1870	6.5672
AUD/NZD	1.0615	0.0002	0.0006	0.0011	0.0024	SEK	6.0586	6.4309
AUD/JPY	80.11	-0.01	-0.03	-0.08	-0.22	SGD	0.9574	1.0162
AUD/EUR	0.6349	-0.0003	-0.0009	-0.0019	-0.0041	TWD	20.01	21.24
AUD/GBP	0.5559	0.0000	0.0001	0.0001	0.0001	ZAR	10.7496	11.4102
USD Index	91.55							
EUR/USD	1.1963	0.0007	0.0024	0.0047	0.0101	<b>EQUITIES</b>		
USD/JPY	105.48	-0.02	-0.10	-0.21	-0.49			<b>Index</b>
GBP/USD	1.3663	0.0001	0.0005	0.0010	0.0025	NZX50		12,992
EUR/GBP	0.8756	0.0004	0.0014	0.0028	0.0058	ASX200		6,765
						Dow Jones		30,987
						S&P 500		3,863
						FTSE100		6,504
						DAX 30		14,060
						Nikkei		28,342
						<b>COMMODITIES</b>		
								<b>USD</b>
						Dubai Light		57.87
						Brent Crude		58.88
						Gold		1,792.26
						Silver		26.28
						CRB Index		191.42

  

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	0.30%	0.26%	0.03%	-0.01%
FRA 90d in 3mths	0.28%	0.25%	0.05%	0.00%
FRA 180d in 6mths	0.33%	0.30%	0.05%	0.01%
1 year swap*	0.29%	0.27%	0.03%	0.02%
2 year swap*	0.39%	0.37%	0.07%	0.06%
3 year swap*	0.54%	0.51%	0.15%	0.14%
5 year swap*	0.85%	0.83%	0.49%	0.48%
10 year swap*	1.44%	1.42%	1.25%	1.23%
10 year Govt bond		1.35%		1.23%

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

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