Events Round-Up

NZ: Building permits (m/m%), Aug: 0.8 vs. -1.3 prev.
NZ: ANZ activity outlook (net%), Sep: -1.8 vs. -0.5 prev.
NZ: ANZ business confidence (net%), Sep: -53.5 vs. -52.3 prev.
CH: Manufacturing PMI, Sep: 49.8 vs. 49.6 exp.
CH: Non-manufacturing PMI, Sep: 53.7 vs. 53.9 exp.
CH: Caixin PMI Manufacturing, Sep: 51.4 vs. 50.2 exp.
GE: Unemployment rate (%), Sep: 5 vs. 5 exp.
EC: Unemployment rate (%), Aug: 7.4 vs. 7.5 exp.
GE: CPI (EU harmonised, y/y%), Sep: 0.9 vs. 1 exp.
US: Chicago PMI, Sep: 47.1 vs. 50 exp.

Good Morning

The September quarter ended on a positive note, as equity markets brushed off reports from Friday that the US had discussed restricting investments in Chinese companies. The USD strengthened again, with the DXY index reaching its highest level since mid-2017, while bond yields were little changed. The NZD has underperformed over the past 24 hours, and reached a fresh four year low, after another miserable ANZ business confidence survey. All eyes are on the RBA rate decision this afternoon.

There hasn’t been any major news on the US-China trade war nor the ‘Ukrainegate’ scandal overnight. US equity indices have risen by 0.6% - 0.9% overnight and have now fully reversed the falls experienced on Friday after Bloomberg reported that the US administration had discussed restricting investment into Chinese companies.

A statement from a US Treasury spokesperson over the weekend that the US was not considering de-listing Chinese companies “at this time” appears to have quelled concerns about that story for now. The S&P500 was 2% higher in September, leaving it around 1.3% from its all-time highs.

Some modest improvement in the Chinese PMIs, released yesterday, has also helped market sentiment. The official Manufacturing PMI rose slightly while the unofficial Caixin measure was also stronger – at 51.4 from 50.4. Despite the improvement on the month, the official manufacturing PMI remained below the 50 mark for the fifth consecutive month, indicative of continued softness in the trade-exposed manufacturing sector.

The USD has extended its recent gains overnight, possibly aided by month-end flows. The DXY index (with a 57% weight to the EUR) rose 0.2% to reach its highest level since mid-2017 while the Bloomberg DXY is also pushing up against its recent highs. The EUR broke below the 1.09 mark for the first time since 2017, although it has since recovered slightly and is hovering around that level as we write.

Amidst this broad-based USD strength and another miserable ANZ business survey, the NZD reached its lowest level in four years yesterday, briefly touching 0.6250. The NZD has underperformed over the past 24 hours and it is the second weakest currency in the G10 (above only the Swedish krona), down 0.6%. The headline business confidence reading in the ANZ survey fell to its lowest level in 11 years, with the RBNZ’s larger-than-usual 50bp OCR cut in August having failed to provide any lift to confidence (perhaps unsurprising given that businesses have a long list of concerns and interest rates are well down that list). The Own Activity measure fell to -1.8 in September, pointing to GDP growth, at face value, of around 1% and suggesting downside risks to our own forecast of 2%. Also notable, given the RBNZ has recently emphasised the importance of lifting inflation expectations, the inflation expectations component of the survey fell to 1.63%, its lowest level since the end of 2016. We remain of the view that the RBNZ’s growth forecasts are too optimistic and expect further OCR cuts in November and February. NZ short-end rates fell 1 to 2bps yesterday on the back of the survey. The market prices around a 75% chance of a November OCR cut. We expect these softer growth and inflation messages will be echoed in today’s Quarterly Survey of Business Opinion (QSBO).

Besides the QSBO, which is released this morning, all eyes will be on the RBA’s rate decision at 5:30pm this afternoon. Our NAB colleagues are in line with consensus in looking for a 25bp cut in the cash rate to 0.75% (80% priced by the market). Governor Lowe speaks at a post-Board dinner later in the evening. Our NAB colleagues expect both the Statement and speech on Tuesday will be used to justify the move lower, keep open the possibility of lower rates, but give no hint of timing, which may disappoint markets slightly. Ahead of the RBA meeting, the AUD is down slightly this week and is hovering around 0.6750 while the NZD/AUD cross has fallen back below 0.93.
US and European bond markets have shown little movement overnight, with little reaction to a weaker than expected Chicago PMI survey, the last of the regional Fed surveys to be released. The median estimate from a Bloomberg survey of economists is for the ISM manufacturing survey to nudge back to 50 when it is released tonight. Elsewhere, Chicago Fed President Charles Evans told CNBC that he was “open-minded” about the possibility of further easing, although his base case was that the rate cuts to date were probably sufficient. The US 10 year Treasury yield is at 1.68%, unchanged on the day, but almost 20bps higher than the end of August.

Finally, repo pressures remained contained over quarter-end, with banks taking up $63.5b of the $100b offered by the NY Fed in its overnight borrowing facility.

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Coming Up

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<tr>
<th>Period</th>
<th>Cons.</th>
<th>Prev.</th>
<th>NZT</th>
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<tr>
<td>NZ Qsbo Business Opinion Survey</td>
<td>Q3</td>
<td>10:00</td>
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<tr>
<td>Jn Tankan Large Mfg Index</td>
<td>Q3</td>
<td>1</td>
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<tr>
<td>Au Rba Cash Rate Target</td>
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<td>0.75</td>
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<td>Au Rba Governor Lowe Speaks in Melbourne</td>
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<tr>
<td>Nz Dairy Auction Avg. Winning Price ($/mt)</td>
<td>Sep</td>
<td>47</td>
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<td>Cn Core CPI (y/y%)</td>
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<td>1</td>
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<td>Us Rba Governor Lowe Speaks in Melbourne</td>
<td>Sep</td>
<td>50.1</td>
<td>49.1</td>
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<td>Us Rba Cash Rate Target</td>
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<td>Us Rba Governor Lowe Speaks in Melbourne</td>
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Source: Bloomberg, BNZ
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