

4 September 2018



Events Round-Up

NZ: Terms of trade (q/q%), Q2: 0.6 vs. 1.0 exp.

AU: Retail sales (m/m%), Jul: 0.0 vs. 0.3 exp.

CH: Caixin PMI manufacturing, Aug: 50.6 vs. 50.7 exp.

UK: Markit PMI manufacturing, Aug: 52.8 vs. 53.9 exp.

Good Morning

Markets are quiet with the US on holiday. NZD is hovering around the 0.66 mark while GBP is the weakest of the majors on various Brexit headlines.

As the new month has begun, downward pressure has continued for emerging market currencies, with the usual suspects at the bottom of the rung, including the Argentine peso, Brazilian real, Turkish lira and South African rand.

The NZD has also started the month on a soft note, heading south after the release of slightly softer than expected terms of trade data, although that might have been coincidental as the index remains close to a record high. Last week we published a [note](#) illustrating that conventional purchasing power parity estimates for the NZD range from about 0.66 to 0.74, but if one used a modified terms of trade adjusted PPP measure then that would increase long-term fair value to a 0.75-0.80 range. The terms of trade data with its associated export and import volume components didn't sway our view that Q2 GDP is expected to come in at a fairly robust 0.8% q/q%, ahead of the RBNZ's 0.5% estimate.

The NZD got down to a low of 0.6594 yesterday and last night was back up to where it ended last week at 0.6622, but it has slipped back down to around 0.66 this morning. The AUD has outperformed, despite a temporary lurch down after softer than expected retail sales data. It has unwound some of Friday's inexplicable underperformance and sits this morning just above 0.72, which sees NZD/AUD down to 0.9160.

Sweden's krona takes top honours, up 0.8%, with traders putting it down to a short squeeze ahead of a Riksbank meeting this week and a general election, where focus has turned to the rise in support for an anti-immigration nationalist party that could form part of the next government.

GBP is the weakest of the majors after weekend reports on Brexit. The EU's chief negotiator Barnier said he "strongly opposed" the "illegal" Chequers plan, because it

sought to unpick the single market. Former UK Brexit negotiator Davis said that he will vote against May's plan and others suggested that she obviously didn't have any Parliamentary backing for the plan. May ruled out a second Brexit referendum and left open the idea of modifying her plan in saying "there will be no compromises...that are not in our national interest". Former foreign secretary Johnson claimed May's plan would be a "disaster" for Britain and this has restarted speculation of a possible leadership challenge to May as Parliament opens for business after the summer break. Also not helping GBP, on the economic front, the UK manufacturing PMI came in softer than expected, slowing to its weakest in two years. GBP is down 0.7% to 1.2870, seeing NZD/GBP up 0.4% to 0.5130.

There is little else to report. In the euro area, final PMI data were little changed from their early estimates, with the manufacturing index dropping to its lowest level in almost two years. China's Caixin manufacturing PMI weakened in August and new orders from abroad declined for a fifth straight month. A Caixin spokesman said that the export situation is "grim" and the economy is facing "obvious downward pressure."

After last month's chunky falls, driven by global forces, the more dovish RBNZ and weaker business confidence data, the NZ rates market showed further downward pressure, with the swaps and government curve showing falls of 1-2bps to fresh lows. The 2-year swap rate fell to 1.97% and 5-year rate fell to 2.30%.

Today's RBA policy announcement is likely to maintain a decisively neutral tone, but the market will be interested if there is any response to the recent nudge up in mortgage rates from a number of banks. For tonight's GDT dairy auction we're looking for an increase in the overall price index of about 2%. The US ISM release is expected to show some slippage but remain high on a historical basis.

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Coming Up

| | Period | Cons. | Prev. | NZT |
|--|--------|-------|-------|-------|
| AU Net exports (% contr. to GDP) | Q2 | 0.1 | 0.3 | 13:30 |
| AU RBA cash rate target (%) | Sep | 1.5 | 1.5 | 16:30 |
| UK Markit construction PMI | Aug | 54.9 | 55.8 | 20:30 |
| AU Remarks by RBA Governor Lowe in Perth | | | | 21:30 |
| NZ GDT dairy auction (avg winning price) | | | 3044 | |
| US Construction spending (m/m%) | Jul | 0.4 | -1.1 | 02:00 |
| US ISM manufacturing | Aug | 57.6 | 58.1 | 02:00 |
| NZ QV house prices (y/y%) | Aug | | 5.1 | 05:00 |

Source: Bloomberg, BNZ.

| Foreign Exchange | | | | | | | Equities | | | | Commodities** | | | | | |
|---------------------------------|--------|-------|-------------|----------|-----------------------|---------|---------------------|---------------------|----------------|----------|---------------|---------|-------|---------------------------|--------|-------|
| Indicative overnight ranges (*) | | | | Other FX | | | Major Indices | | | | Price | | | | | |
| | Last | % Day | Low | High | | Last | % Day | | | Last | % Day | Net Day | | | | |
| NZD | 0.6603 | -0.3 | 0.6600 | 0.6622 | CHF | 0.9694 | +0.1 | | | S&P 500 | 2,902 | +0.0 | 17.2 | Oil (Brent) | 78.15 | +0.5 |
| AUD | 0.7212 | +0.3 | 0.7186 | 0.7224 | SEK | 9.098 | -0.8 | | | Dow | 25,965 | -0.1 | 18.1 | Oil (WTI) | 70.10 | +0.4 |
| EUR | 1.1618 | +0.1 | 1.1591 | 1.1628 | NOK | 8.353 | +0.5 | | | Nasdaq | 8,110 | +0.3 | 26.0 | Gold | 1201.9 | +0.0 |
| GBP | 1.2875 | -0.7 | 1.2855 | 1.2934 | HKD | 7.850 | +0.0 | | | Stoxx 50 | 3,395 | +0.1 | -1.4 | HRC steel | 865.0 | +0.5 |
| JPY | 111.10 | +0.1 | 110.89 | 111.17 | CNY | 6.823 | -0.1 | | | FTSE | 7,505 | +1.0 | 0.9 | CRB | 193.0 | +0.1 |
| CAD | 1.3096 | +0.4 | | | SGD | 1.372 | -0.0 | | | DAX | 12,346 | -0.1 | 1.7 | Wheat Chic. | 545.5 | +2.0 |
| NZD/AUD | 0.9156 | -0.5 | | | IDR | 14,815 | +0.7 | | | CAC 40 | 5,414 | -0.4 | 5.7 | Sugar | 10.60 | +0.3 |
| NZD/EUR | 0.5683 | -0.4 | | | THB | 32.69 | -0.2 | | | Nikkei | 22,707 | -0.7 | 16.4 | Cotton | 82.31 | -0.1 |
| NZD/GBP | 0.5129 | +0.4 | | | KRW | 1,110 | -0.2 | | | Shanghai | 2,721 | -0.2 | -19.5 | Coffee | 101.8 | -0.8 |
| NZD/JPY | 73.36 | -0.2 | | | TWD | 30.71 | -0.0 | | | ASX 200 | 6,311 | -0.1 | 10.7 | WM powder | 2870.0 | +0.7 |
| NZD/CAD | 0.8647 | +0.1 | | | PHP | 53.49 | -0.1 | | | NZX 50 | 9,257 | -0.6 | 18.6 | Australian Futures | | |
| NZ TWI | 71.87 | -0.4 | | | | | | | | | | | | 3 year bond | 98.025 | 0.00 |
| | | | | | | | | | | | | | | 10 year bond | 97.49 | -0.02 |
| Interest Rates | | | | | | | | | | | | | | | | |
| | Rates | | Swap Yields | | Benchmark 10 Yr Bonds | | NZ Government Bonds | | NZ Swap Yields | | | | | | | |
| | Cash | 3Mth | 2 Yr | 10 Yr | Last | Net Day | | Last | | Last | | | | | | |
| USD | 2.00 | 2.32 | 2.83 | 2.93 | USD | 2.86 | 0.00 | NZGB 6 05/15/21 | 1.67 | -0.01 | 1 year | 1.94 | 0.00 | | | |
| AUD | 1.50 | 1.95 | 1.99 | 2.70 | AUD | 2.52 | 0.00 | NZGB 5 1/2 04/15/23 | 1.90 | -0.01 | 2 year | 1.97 | -0.01 | | | |
| NZD | 1.75 | 1.92 | 1.97 | 2.81 | NZD | 2.35 | -0.02 | NZGB 2 3/4 04/15/25 | 2.16 | -0.01 | 5 year | 2.30 | -0.01 | | | |
| EUR | 0.00 | 0.06 | -0.15 | 0.87 | GER | 0.33 | 0.01 | NZGB 4 1/2 04/15/27 | 2.35 | -0.02 | 7 year | 2.55 | -0.01 | | | |
| GBP | 0.75 | 0.80 | 1.09 | 1.52 | GBP | 1.40 | -0.02 | NZGB 3 04/20/29 | 2.51 | -0.02 | 10 year | 2.81 | -0.02 | | | |
| JPY | -0.05 | -0.03 | 0.06 | 0.34 | JPY | 0.12 | 0.01 | NZGB 3 1/2 04/14/33 | 2.69 | -0.01 | 15 year | 3.07 | -0.02 | | | |
| CAD | 1.50 | 1.17 | 2.40 | 2.63 | CAD | 2.23 | -0.05 | NZGB 2 3/4 04/15/37 | 2.84 | -0.02 | | | | | | |

* These are indicative ranges from 5pm NZT; please confirm rates with your BNZ dealer

** All near futures contracts, except CRB. Metals prices are CME.

Rates are as of: NZT 06:51

Source: Bloomberg

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