

5 September 2018



## Events Round-Up

AU: Net exports (% contr. to GDP), Q2: 0.1 vs. 0.1 exp.

AU: RBA cash rate target (%), Sep: 1.5 vs. 1.5 exp.

UK: Markit construction PMI, Aug: 52.9 vs. 54.9 exp.

NZ: GDT dairy auction (avg winning price): -0.7%

US: Construction spending (m/m%), Jul: 0.1 vs. 0.4 exp.

US: ISM manufacturing, Aug: 61.3 vs. 57.6 exp.

## Good Morning

USD strength across the board has seen the NZD and AUD reach fresh multi-year lows, alongside further weakness in emerging market currencies. Strong US ISM data has supported higher US Treasury rates.

The end of the US public holiday saw the USD well-bid from the start of the European open and the various USD indices are currently up 0.3-0.4%. There was no key trigger, with the move seemingly driven by portfolio flows. So while the NZD spent the local session hovering 0.66, it steadily fell to around 0.6540 over the following few hours and has found support at that level, a fresh 2½-year low. One might argue that we're seeing some front-running of USD strength ahead of Trump moving ahead with additional tariffs on \$200b of Chinese imports, possibly as soon as Friday NZ time, or the decision could still drift into next week. Until the decision is made, the market will remain nervous about commodity currencies and emerging market currencies. Despite a discount being built into the NZD ahead of any announcement, we still see a good chance of further NZD weakness if Trump goes ahead with the plan as proposed. The latest GDT dairy auction was slightly weaker than expected, showing a small fall in average prices, but this had little impact on the market.

Emerging market currencies have continued to fall, with the South African rand the biggest loser this time, as GDP data were much worse than expected and the economy has tipped into recession. The list of casualties in the emerging markets space is growing by the day.

The AUD showed a mild relief-rally after the RBA didn't dial up any dovish rhetoric, as some feared in the market, after yesterday's policy statement. The central bank remained decisively neutral and there was no change in language in the final two paragraphs. Still, the backdrop of a stronger USD saw a new low of 0.7157, but the

support post-RBA announcement sees NZD/AUD weaker around 0.9130.

In economic news, the US manufacturing ISM index unexpectedly jumped up to a 14-year high, with strength across a number of components. Respondents are still "overwhelmingly concerned about tariff-related activity" but it seems that domestic demand in the US is still strong. The Atlanta Fed's GDPNow estimate for Q3 GDP has pushed up to a remarkable 4.7%, although it is still early days in the quarterly reporting cycle. While the ISM release had little impact on the USD – it was already stronger heading into the announcement – it helped push US rates higher, with the 2-year rate up 3bps for the day to 2.65% and the 10-year rate up 4bps to 2.90%, the latter still well within the 2.80-3.00% range it has spent much of the past six months.

GBP has outperformed, with Brexit headlines continuing to be a key driver of performance. Bloomberg reported that EU officials are exploring how to unlock a wider Brexit deal by making the so-called Irish border backstop more palatable to the UK, according to sources. The EU apparently accepts that its original plan to keep Northern Ireland in the customs union and parts of the single market – something unpalatable to the UK – was "heavy-handed". GBP has barely slipped against the strong USD and sits at 1.2860, while NZD/GBP has nudged below 0.51.

There has also been good news out of Italy, with one news agency suggesting that the Italian government coalition partner League seeks to show calm to financial markets and the economic community, with the Italian government not even thinking of leaving euro zone or EU. The party is aiming to send a reassuring message about its spending plans and is discussing a 2019 deficit below 3 percent of GDP. This has allayed market fears about a possible budget blow-out. Italy's 10-year rate is down 15bps to 3.00%, while EUR has unwound some of its earlier weakness and is now down just 0.3% to 1.1580.

Looking at the day ahead, Australian Q2 GDP data this afternoon is expected to show trend-like growth of 0.7% qoq. The Bank of Canada meets but isn't expected to hike rates again until the October meeting. By then we might have more clarity on the state of NAFTA.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Building work put in place (q/q%)	Q2	2.9	-0.9	10:45
AU	GDP (q/q%)	Q2	0.7	1.0	13:30
CH	Caixin PMI services	Aug	52.6	52.8	13:45
UK	Markit services PMI	Aug	53.9	53.5	20:30
US	Trade balance (\$b)	Jul	-50.0	-46.3	00:30
CA	Bank of Canada rate (%)	Sep	1.5	1.5	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	% Year		Last	Net Day		
NZD	0.6554	-0.7	0.6540	0.6607	CHF	0.9745	+0.5	S&P 500	2,897	-0.2	17.0	Oil (Brent)	77.75	-0.5
AUD	0.7179	-0.5	0.7157	0.7235	SEK	9.097	-0.0	Dow	25,956	-0.0	18.0	Oil (WTI)	69.44	-0.5
EUR	1.1579	-0.3	1.1530	1.1611	NOK	8.402	+0.6	Nasdaq	8,090	-0.2	25.7	Gold	1191.8	-0.8
GBP	1.2858	-0.1	1.2811	1.2871	HKD	7.849	-0.0	Stoxx 50	3,359	-1.0	-2.1	HRC steel	860.0	-0.6
JPY	111.46	+0.4	111.12	111.53	CNY	6.844	+0.3	FTSE	7,458	-0.6	0.6	CRB	192.1	-0.4
CAD	1.3177	+0.6			SGD	1.376	+0.3	DAX	12,210	-1.1	0.9	Wheat Chic.	531.5	-2.5
NZD/AUD	0.9129	-0.2			IDR	14,935	+0.8	CAC 40	5,343	-0.6	4.7	Sugar	10.64	+0.4
NZD/EUR	0.5660	-0.4			THB	32.82	+0.4	Nikkei	22,697	-0.0	17.1	Cotton	82.78	+0.6
NZD/GBP	0.5097	-0.6			KRW	1,115	+0.4	Shanghai	2,751	+1.1	-18.7	Coffee	101.5	-0.3
NZD/JPY	73.05	-0.3			TWD	30.76	+0.2	ASX 200	6,293	-0.3	10.3	WM powder	2860.0	-0.3
NZD/CAD	0.8636	-0.1			PHP	53.60	+0.2	NZX 50	9,292	+0.4	19.5	<b>Australian Futures</b>		
NZ TWI	71.50	-0.4										3 year bond	97.995	-0.03
												10 year bond	97.46	-0.04
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	Net Day	Last	% Day	% Year	Last	Net Day	
USD	2.00	2.32	2.85	2.97	USD	2.90	0.04	NZGB 6 05/15/21	1.67	-0.00		1 year	1.94	0.00
AUD	1.50	1.95	2.01	2.74	AUD	2.52	0.01	NZGB 5 1/2 04/15/23	1.88	-0.02		2 year	1.97	-0.00
NZD	1.75	1.91	1.97	2.80	NZD	2.35	-0.01	NZGB 2 3/4 04/15/25	2.15	-0.02		5 year	2.30	-0.01
EUR	0.00	0.06	-0.15	0.88	GER	0.36	0.02	NZGB 4 1/2 04/15/27	2.35	-0.01		7 year	2.54	-0.01
GBP	0.75	0.80	1.09	1.54	GBP	1.43	0.03	NZGB 3 04/20/29	2.51	0.00		10 year	2.80	-0.01
JPY	-0.05	-0.04	0.05	0.34	JPY	0.12	0.01	NZGB 3 1/2 04/14/33	2.69	0.00		15 year	3.06	-0.01
CAD	1.50	1.17	2.39	2.64	CAD	2.24	0.01	NZGB 2 3/4 04/15/37	2.84	0.00				

\* 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 06:53

Source: Bloomberg

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