

6 September 2018



## Events Round-Up

NZ: Building work put in place (q/q%), Q2: 0.8 vs. 2.9 exp.

AU: GDP (q/q%), Q2: 0.9 vs. 0.7 exp.

CH: Caixin PMI services, Aug: 51.5 vs. 52.6 exp.

UK: Markit services PMI, Aug: 54.3 vs. 53.9 exp.

US: Trade balance (\$b), Jul: -50.1 vs. -50.2 exp.

CA: Bank of Canada rate (%), Sep: 1.5 vs. 1.5 exp.

NZ: QV house prices (y/y%), Aug: 4.8 vs. 5.1 prev.

## Good Morning

Market movements have been modest, but the NZD heads the leaderboard with broadly based gains, recovering after reaching a fresh low during local trading. US Treasury yields are unchanged.

Against a backdrop of improved performance by emerging market currencies, the NZD is up 0.5% in overnight trading to 0.6590. During local trading yesterday, the NZD was flat, although there was a flow-driven temporary lurch down to a fresh low of 0.6530. The NZD has trended higher from the European open, keeping company with other esteemed currencies like the Turkish lira, Argentine peso and Brazilian real. There was little market reaction to NZ building work data coming in well below market estimates, posing some downside risk to Q2 GDP estimates, and QV data released this morning showed a slight moderation in house price inflation to 4.8% q/q.

Other commodity currencies haven't fared as well, with NZD/AUD and NZD/CAD crosses both higher. The AUD was well supported after stronger than expected Q2 GDP data which saw it break up through 0.72, and NZD/AUD fell below 0.9080, but the data are dated and this all eventually reversed. NZD/AUD sits 0.4% higher for the day at 0.9165.

Overnight, the Bank of Canada left rates unchanged, as widely expected, and reiterated that gradual hikes will be warranted as the economy is near capacity. The market continues to price in a more than 80% chance of a hike next month. The statement added that the Bank is "monitoring closely the course of NAFTA negotiations and other trade policy developments, and their impact on the inflation outlook". US-Canada NAFTA negotiations have resumed, but comments soon after we went to press yesterday morning by PM Trudeau suggested that Canada was digging its heels in on the thorny dispute resolution issue, adding that he won't sign an agreement that doesn't benefit Canada. USD/CAD is flat at 1.3190 while

NZD/CAD is 0.5% higher at just under 0.87.

GBP has been whippy again as Brexit headlines dominate. Bloomberg reported that Germany is ready to accept a less detailed agreement on the UK's future economic and trade ties with the EU in a bid to get a divorce deal done, while the UK is also willing to settle for a vaguer statement of intent on the future relationship, postponing some decisions until after Brexit day. GBP gained over 1% on that report, and then lost half of that gain after Reuters reported that the German government said its position is unchanged. Both EUR and GBP are up around 0.3% to 1.1620 and 1.2900 respectively.

In economic news overnight, the US trade deficit was in line with the advance estimate, which showed a chunky widening in July and record deficits with China and the EU. Euro area final PMI services data were in line with early estimates while UK services PMI data was stronger than expected, but there was little market reaction.

US Treasuries have traded in a tight range and the 10-year rate is unchanged at 2.90%. The Fed's uber-dove Bullard said overnight that market pricing implied that Fed policy might be too tight, noting the flat yield curve and market-based measures of inflation expectations still below levels consistent with the 2% target. His view is a minority one on the FOMC. Tonight the Fed's Williams gives a speech, which will be more widely read since he is now the vice-chair of the FOMC and head of the NY Fed.

Italian bonds showed the largest movement, with the 10-year rate down by 8bps to 2.92% (at the beginning of the week the yield was tracking around 3.20%), as the market continues to reduce its fear about the upcoming Italian budget. Deputy Premier Di Maio said that "Budget law will reassure markets, but also Italians".

NZ's swap curve showed rates up about 1bp, while the government curve showed 3-4bps higher yields, something more consistent with the prior move in US Treasuries.

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## Coming Up

		Period	Cons.	Prev.	NZT
AU	Trade balance (\$m)	Jul	1450	1873	13:30
NZ	NZ to sell \$100m 2040 I/L Bonds				14:05
GE	Factory orders (m/m%)	Jul	1.8	-4	18:00
US	ADP employment change ('000)	Aug	200	219	00:15
US	Fed's Williams speaks at University of Buffalo				02:00
US	ISM non-manufacturing index	Aug	56.8	55.7	02:00

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	0.6588	+0.5	0.6542	0.6595	CHF	0.9721	-0.2			S&P 500	2,889	-0.3	17.5	Oil (Brent)	77.26	-1.2
AUD	0.7185	+0.1	0.7145	0.7199	SEK	9.067	-0.2			Dow	25,941	-0.0	19.3	Oil (WTI)	68.79	-1.5
EUR	1.1623	+0.4	1.1543	1.1640	NOK	8.402	+0.1			Nasdaq	7,998	-1.1	25.4	Gold	1196.9	+0.2
GBP	1.2896	+0.3	1.2786	1.2983	HKD	7.850	+0.0			Stoxx 50	3,316	-1.3	-3.1	HRC steel	863.0	+0.3
JPY	111.50	+0.1	111.40	111.76	CNY	6.830	-0.2			FTSE	7,383	-1.0	0.1	CRB	191.0	-0.6
CAD	1.3188	-0.0			SGD	1.376	+0.0			DAX	12,040	-1.4	-0.7	Wheat Chic.	521.8	-1.8
NZD/AUD	0.9169	+0.4			IDR	14,938	+0.0			CAC 40	5,260	-1.0	3.4	Sugar	10.89	+2.3
NZD/EUR	0.5668	+0.1			THB	32.79	-0.1			Nikkei	22,581	-0.5	16.6	Cotton	81.71	+0.6
NZD/GBP	0.5109	+0.2			KRW	1,121	+0.5			Shanghai	2,704	-1.7	-20.1	Coffee	103.8	+1.9
NZD/JPY	73.46	+0.6			TWD	30.81	+0.2			ASX 200	6,230	-1.0	9.5	WM powder	2815.0	-1.6
NZD/CAD	0.8688	+0.5			PHP	53.69	+0.2			NZX 50	9,228	-0.7	18.5	<b>Australian Futures</b>		
NZ TWI	71.81	+0.4												3 year bond	97.98	-0.01
														10 year bond	97.44	-0.01
<b>Interest Rates</b>																
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	2.84	2.96	USD	2.90	0.00	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	2.55	0.03	NZGB 5 1/2 04/15/23	1.89	0.01	2 year	1.98	0.01			
NZD	1.75	1.90	1.97	2.80	NZD	2.38	0.03	NZGB 2 3/4 04/15/25	2.17	0.02	5 year	2.30	0.00			
EUR	0.00	0.06	-0.15	0.90	GER	0.38	0.02	NZGB 4 1/2 04/15/27	2.38	0.03	7 year	2.54	0.01			
GBP	0.75	0.80	1.08	1.55	GBP	1.44	0.01	NZGB 3 04/20/29	2.55	0.03	10 year	2.82	0.01			
JPY	-0.05	-0.04	0.05	0.33	JPY	0.12	-0.01	NZGB 3 1/2 04/14/33	2.73	0.04	15 year	3.07	0.01			
CAD	1.50	1.17	2.39	2.65	CAD	2.24	0.00	NZGB 2 3/4 04/15/37	2.88	0.04						

\* 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 06:52

Source: Bloomberg

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