

7 September 2018



## Events Round-Up

AU: Trade balance (\$m), Jul: 1551 vs. 1450 exp.

GE: Factory orders (m/m%), Jul: -0.9 vs. 1.8 exp.

US: ADP employment chg ('000), Aug: 163 vs. 200 exp.

US: ISM non-manufacturing index, Aug: 58.5 vs. 56.8 exp.

## Good Morning

A risk-off mood has prevailed overnight, although market movements have been modest, as we await a possible announcement by President Trump of further tariffs and ahead of the key US employment report tonight. The NZD sits around 0.66 and UST rates are lower, with comments by the Fed's vice chair Williams interpreted as dovish.

In the US the period of public consultation on the proposed 25% tariffs on an additional \$200bn of Chinese imports ends within the next hour or two and after that President Trump will be free to make his decision. He is widely expected to go ahead with additional tariffs, but the devil will be in the detail, such as phasing, and whether he then threatens (again) tariffs on the full \$500+b of Chinese imports. Trump might also decide to wait a week or two before making a decision.

China has previously said that it would retaliate and, while the quantum will be lower as China imports a much lower amount of goods from the US (around \$150b), US companies earn \$250b by operating in the country and China could easily make life more difficult for them.

These risks alone are enough to keep the market on tenterhooks but the market is also concerned about contagion risk in emerging markets, as the list of casualties grows and emerging market equities have officially entered bear market territory. Possible new regulations for the technology company behemoths also overhang the market, while a key chip maker overnight indicated likely softer demand than expected into year-end. This sees the S&P500 down for the third consecutive day, led by the IT sector.

Against that backdrop, the safe-haven yen and Swiss franc are the best performing currencies. USD/JPY is down 0.6% to 110.85 while NZD/JPY is down 0.6% to 73.1. NZD/USD has tracked sideways over the past 24 hours, currently hanging in there around the 0.66 mark. AUD is behaving the same, around 0.72. There was a temporary

blip down yesterday afternoon after ANZ announced a 16bps increase in its floating mortgage rate, following on from Westpac's move last week, but the move wasn't sustained. The RBA isn't much concerned about small rate moves that still leave average mortgage rates below levels of a year ago.

In key economic data since the local close, German factory orders were much weaker than expected, driven by weaker export demand, with the Economy Ministry saying global uncertainty fuelled by increased trade tensions probably weighed on demand. The US ISM non-manufacturing index rebounded in August by much more than expected. The press release noted that "logistics, tariffs and employment resources continue to have an impact on many of the respective industries." ADP private payrolls were weaker than expected, which more likely reflects difficulty in finding labour than a lack of demand for workers. US jobless claims fell to their lowest level in 49 years.

These data had little market impact, with the Fed's Williams' comments getting more attention. His comments were interpreted on the dovish side, with the market focusing on "...the fact that wages haven't grown a lot faster is a sign that this economy still has room to run," adding that as a result, "we don't feel the need to raise interest rates more quickly than otherwise." US rates were steady until those comments hit the screen, and now the 2-year rate is down 2bps while the 10-year rate is down 3bps to 2.87%.

GBP has slightly outperformed, rising 0.2% to 1.2935, helped by a more positive vibe around Brexit. A European Commission spokesman said that chief Brexit negotiator Barnier doesn't think that the UK's plan for post-Brexit ties is completely unworkable. He said that Barnier had been "very clear" from the outset that the plan contains "positive elements" and there could be "further discussions on issues that still create problems."

CAD is slightly stronger after the Bank of Canada's Wilkins said that the central bank debated whether to increase the pace of rate hikes before finally keeping the language around a "gradual approach" to rate hikes.

At the bottom end of the leaderboard, the Swedish Krona is down 0.5% after the Riksbank said that it won't raise rates next month but could raise rates in either December or February, a delay from previous guidance that it would start raising rates towards the end of the year. In the

market's eyes the central bank has lost all credibility as it continually pushes out the timing of tighter policy.

In the day ahead, focus will be on RBNZ Governor Orr's first speech since his appointment. Given the topic, we'd expect him to cover off global trade tensions, the rise of populism, and implications for the NZ economy. Then, barring an announcement by Trump on tariffs, it should be a quiet session in the lead-up to the US employment report tonight, with the consensus picking strong employment growth and another nudge down in the unemployment rate, but no smoking gun with respect to wage inflation.

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Coming Up

	Period	Cons.	Prev.	NZT	
NZ	Orr speaks on geopolitics and the winds of change			09:30	
GE	Industrial production (m/m%)	Jul	0.2	-0.9	18:00
CH	Foreign Reserves (USD)	Aug	3115	3118	
US	Chg in nonfarm payrolls ('000)	Aug	195	157	00:30
US	Unemployment rate (%)	Aug	3.8	3.9	00:30
US	Average hrly earnings (y/y%)	Aug	2.7	2.7	00:30
CA	Unemployment rate (%)	Aug	5.9	5.8	00:30
CH	Exports YoY	Aug	10.0	12.2	Sat
CH	Imports YoY	Aug	18.5	27.3	Sat

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	0.6596	+0.0	0.6572	0.6607	CHF	0.9673	-0.6			S&P 500	2,869	-0.4	16.4	Oil (Brent)	76.24	-0.8
AUD	0.7201	+0.1	0.7166	0.7211	SEK	9.113	+0.6			Dow	25,960	+0.1	19.0	Oil (WTI)	67.61	-1.2
EUR	1.1624	-0.1	1.1606	1.1655	NOK	8.430	+0.3			Nasdaq	7,911	-1.0	23.7	Gold	1199.2	+0.3
GBP	1.2934	+0.2	1.2897	1.2962	HKD	7.850	+0.0			Stoxx 50	3,296	-0.6	-4.0	HRC steel	863.0	+0.3
JPY	110.86	-0.6	110.71	111.43	CNY	6.836	+0.1			FTSE	7,319	-0.9	-0.5	CRB	189.4	-0.6
CAD	1.3146	-0.2			SGD	1.376	-0.1			DAX	11,955	-0.7	-2.1	Wheat Chic.	514.3	-1.5
NZD/AUD	0.9160	-0.0			IDR	14,893	-0.3			CAC 40	5,244	-0.6	2.8	Sugar	10.80	-0.8
NZD/EUR	0.5674	+0.1			THB	32.80	+0.0			Nikkei	22,488	-0.4	15.9	Cotton	81.97	+0.3
NZD/GBP	0.5100	-0.1			KRW	1,124	+0.2			Shanghai	2,692	-0.5	-20.0	Coffee	102.3	-1.6
NZD/JPY	73.12	-0.6			TWD	30.79	-0.1			ASX 200	6,160	-1.1	8.3	W/M powder	2800.0	-0.5
NZD/CAD	0.8671	-0.2			PHP	53.86	+0.3			NZX 50	9,102	-1.4	16.6	<b>Australian Futures</b>		
NZ TWI	71.80	-0.1												3 year bond	97.995	0.02
														10 year bond	97.46	0.01
Interest Rates							NZ Government Bonds				NZ Swap Yields					
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	2.82	2.94	USD	2.87	-0.03	NZGB 6 05/15/21	1.65	-0.02	1 year	1.94	0.00			
AUD	1.50	1.95	1.99	2.73	AUD	2.57	0.02	NZGB 5 1/2 04/15/23	1.87	-0.02	2 year	1.97	-0.01			
NZD	1.75	1.90	1.97	2.80	NZD	2.36	-0.02	NZGB 2 3/4 04/15/25	2.15	-0.02	5 year	2.29	-0.01			
EUR	0.00	0.06	-0.15	0.88	GER	0.36	-0.03	NZGB 4 1/2 04/15/27	2.36	-0.02	7 year	2.53	-0.02			
GBP	0.75	0.80	1.08	1.52	GBP	1.42	-0.03	NZGB 3 04/20/29	2.53	-0.02	10 year	2.80	-0.02			
JPY	-0.05	-0.04	0.05	0.32	JPY	0.11	-0.00	NZGB 3 1/2 04/14/33	2.71	-0.02	15 year	3.06	-0.01			
CAD	1.50	1.17	2.37	2.60	CAD	2.21	-0.03	NZGB 2 3/4 04/15/37	2.86	-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 06:55

Source: Bloomberg

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