

10 October 2018



Events Round-Up

AU: NAB business conditions, Sep: 15 vs. 14 prev.

US: NFIB small bus. optimism, Sep: 107.9 vs. 108.3 exp.

Good Morning

Market movements have been modest, with small changes in currencies, flat equity markets and the US 10-year rate nudging lower.

The economic data flow has been light and markets have just been drifting, largely sideways. The US NFIB small business survey continued to show very high levels of business confidence, while the net percentage of firms reporting an increase in worker compensation rose 5 points to 37, a new all-time high – consistent with the strong economy/higher wage inflation story for the US.

That wasn't a market mover as the story is well acknowledged. In fact, back from holiday US Treasury yields fell from the US open after the 10-year rate reached a fresh 7-year of 3.26% in early European trading and has since dropped 4bps to 3.22% and down about 3bps from the level at the NZ close. It might be a sign of exhaustion in selling of US Treasuries, for now, after the rapid run-up from the 2.80% level of late August.

The USD has largely tracked US rates, seeing modest upward pressure as the bond rate rose to a fresh high and coming off the boil since, to be largely flat for the day.

The NZD has maintained a tight trading range around 0.6430-0.6460 and is currently near the top of that range. Yesterday, NZ's fiscal accounts showed a strong operating surplus of 1.9% of GDP for FY18, some \$2.4b larger than projected in May, with spending delays the main cause. We were more interested in the release of ANZ's monthly inflation gauge, which suggested a strong non-tradeables inflation print when CPI data are released next week. While the 1.4% q/q reading for the quarter likely over-states actual non-tradeables inflation, given the indicator's undershoot the previous quarter, we think the data supports our view that both core and headline inflation pressures are rising faster than the RBNZ estimated back in the August MPS. Earlier in the week we were searching for positive things to say about the NZD and failed miserably, but strong inflation data next week might help. The rates market continues to toy with the idea that the next OCR move might be a rate cut (about a

25% chance of a cut priced in by August next year), but we still think this is unlikely in the face of a higher inflationary backdrop. The NZ swaps curve was little changed yesterday, while longer term bond yields nudged up as US Treasury rates drifted higher in Asian trading.

NZD/AUD had a peek below 0.91 yesterday and is just above that level this morning. We think that pressure remains to the downside over coming weeks/months, as NZ's terms of trade retreat while Australia's terms of trade improve in the face of higher oil prices. Brent crude is up around 1½% to above \$85, as another Hurricane approaches the Gulf of Mexico, while the IEA warned that the global crude oil market is entering a "red zone", where supply is struggling to meet demand. In other news which is supportive for the AUD, spot Iron ore rose above \$70 a tonne for the first time since March.

GBP is the biggest mover of the majors although in a low vol market is up around 0.4% to 1.3145, as the market takes on a more positive outlook on Brexit negotiations. Dow Jones reported that diplomats suggest the UK is making progress in Brexit talks and divorce terms could be settled by Monday. The EU and UK were said to be close to resolving all other exit terms.

EUR is flat as market focus remains on Italy. Italy's 10-year rate galloped up to a fresh high of 3.70% as the budget confrontation between the country and the European Commission continued. Market sentiment might have improved after Finance Minister Tria told parliament the government was concerned about the "unacceptable" bond yield spread and that "government would act in case of an unexpected rise in bond yields". Yields closed the day down 9bps at 3.47%.

In other news, President Trump said Secretary of State Pompeo's meeting in China went well and reiterated that China is not ready to make a deal. China's Commerce Minister Zhong issued a statement saying that "There is a view in the US that so long as the US keeps increasing tariffs, China will back down...the US should not underestimate China's resolve and will...China doesn't want a trade war, but would rise up to it should it break out." USD/CNY and USD/CNH have managed to track below 6.93 after opening just above that level although CNY interbank rates have spiked up to 7.67% for the 1-week tenor from the 3-4% level as the PBoC tries to prevent CNY from weakening too much and to deter speculators.

Yesterday, the IMF cut its global growth forecasts for the first time in more than two years to 3.7% for this year and next (from 3.9%). Threats to the forecasts included escalation of the US-China trade war and a sharper-than-expected rise in interest rates that accelerated capital flight from emerging markets.

In the day ahead we'll be watching electronic card transactions data for NZ, preferring to focus on "hard" data than "soft" confidence data these days. During local trading hours, NY Fed President Williams speaks as well. UK GDP and US PPI data are the key releases tonight.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Card spending retail (m/m%)	Sep	0.6	1	10:45
AU	Westpac consumer conf	Oct		100.5	12:30
US	Fed's Williams speaks on monetary policy				14:15
UK	Trade balance (£m)	Aug	-1200	-111	21:30
UK	Industrial production (m/m%)	Aug	0.1	0.1	21:30
UK	Construction output (m/m%)	Aug	-0.5	0.5	21:30
UK	GDP (m/m%)	Aug	0.1	0.3	21:30
US	PPI ex food, energy (m/m%)	Sep	0.2	-0.1	01:30

Source: Bloomberg, BNZ.

Foreign Exchange						Equities				Commodities**				
Indicative overnight ranges (*)					Other FX		Major Indices				Price			
	Last	% Day	Low	High		Last	% Day			Last	Net Day			
NZD	0.6463	+0.2	0.6427	0.6462	CHF	0.9922	-0.0	S&P 500	2,886	-0.1	13.4	Oil (Brent)	84.61	+1.6
AUD	0.7096	+0.3	0.7054	0.7094	SEK	9.117	+0.2	Dow	26,423	-0.1	16.1	Oil (WTI)	74.71	+1.1
EUR	1.1493	+0.0	1.1432	1.1503	NOK	8.286	-0.1	Nasdaq	7,740	+0.0	17.6	Gold	1189.1	+0.4
GBP	1.3146	+0.4	1.3033	1.3149	HKD	7.834	+0.1	Stoxx 50	3,322	+0.4	-8.0	HRC steel	828.0	+0.0
JPY	113.04	-0.2	113.01	113.39	CNY	6.923	-0.1	FTSE	7,238	+0.1	-3.6	CRB	200.2	+0.4
CAD	1.2943	-0.2			SGD	1.384	-0.0	DAX	11,977	+0.3	-7.7	Wheat Chic.	535.3	+0.1
NZD/AUD	0.9108	-0.1			IDR	15,238	+0.1	CAC 40	5,319	-0.8	-0.9	Sugar	12.96	+0.2
NZD/EUR	0.5623	+0.1			THB	33.02	+0.2	Nikkei	23,469	-1.3	12.7	Cotton	77.94	+1.9
NZD/GBP	0.4916	-0.2			KRW	1,135	+0.2	Shanghai	2,721	+0.2	-19.6	Coffee	112.6	+1.4
NZD/JPY	73.06	+0.1			TWD	30.97	+0.1	ASX 200	6,041	-1.0	5.3	WM powder	2650.0	-0.7
NZD/CAD	0.8365	+0.1			PHP	54.19	-0.1	NZX 50	9,070	-0.8	12.8	Australian Futures		
NZ TWI	71.01	+0.1										3 year bond	97.855	-0.03
												10 year bond	97.23	0.01
Interest Rates						NZ Government Bonds				NZ Swap Yields				
	Rates		Swap Yields		Benchmark 10 Yr Bonds		Last			Last				
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day								
USD	2.25	2.41	3.07	3.26	USD	3.21	-0.02	NZGB 6 05/15/21	1.80	0.00	1 year	1.94	0.00	
AUD	1.50	1.93	2.04	2.92	AUD	2.77	0.00	NZGB 5 1/2 04/15/23	2.00	0.01	2 year	2.03	-0.00	
NZD	1.75	1.88	2.02	2.94	NZD	2.48	0.02	NZGB 2 3/4 04/15/25	2.27	0.01	5 year	2.41	0.00	
EUR	0.00	0.06	-0.09	1.06	GER	0.55	0.02	NZGB 4 1/2 04/15/27	2.48	0.02	7 year	2.66	0.00	
GBP	0.75	0.80	1.21	1.78	GBP	1.72	0.04	NZGB 3 04/20/29	2.66	0.02	10 year	2.94	0.01	
JPY	-0.05	-0.07	0.06	0.37	JPY	0.16	0.01	NZGB 3 1/2 04/14/33	2.83	0.02	15 year	3.20	0.01	
CAD	1.50	1.17	2.65	2.94	CAD	2.58	-0.02	NZGB 2 3/4 04/15/37	2.96	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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