

11 October 2018



Events Round-Up

- NZ: Card spending retail (m/m%), Sep: 1.1 vs. 0.6 exp.
- AU: Westpac consumer conf, Oct: 101.5 vs. 100.5 prev.
- UK: Trade balance (£m), Aug: -1274 vs. -1200 exp.
- UK: Industrial production (m/m%), Aug: 0.2 vs. 0.1 exp.
- UK: Construction output (m/m%), Aug: -0.7 vs. -0.5 exp.
- UK: GDP (m/m%), Aug: 0.0 vs. 0.1 exp.
- US: PPI ex food, energy (m/m%), Sep: 0.2 vs. 0.2 exp.

Good Morning

US and European equity markets have fallen significantly, against a backdrop of little news. Movements in currency and bond markets have been well contained, with the NZD tracking sideways and the US 10-year rate up 2bps.

The Euro Stoxx 600 index fell by 1.6% and the S&P500 is currently down 1.4%. There has been no obvious trigger and it looks like the newswires are just making up stuff to explain the performance. Our spin would be that investors are taking profit after a strong run in equities, with the recent run-up in bond rates impacting on valuations. The Russell 2000 (small caps index) has been falling over the past six weeks in the face of higher US 10-year rates and is now down over 8% from its peak. The weakness in the S&P500 has come a lot later is "only" down about 3% from its peak even adding in the overnight move.

So this isn't your classic risk-off move, as currency movements have been modest (USD/JPY is down only 0.1%) and US Treasury rates have nudged higher. The 10-year rate had a run up to 3.24% but has since retreated and is up about 2bps for the day to 3.22%. After the strong run-up over the last six weeks, it feels like some consolidation is taking place.

The NZD has tracked sideways over the past 24 hours and sits this morning at 0.6470, with signs of consolidation after its recent very poor run. The AUD is doing the same, flat around 0.71. Domestic economic data haven't really been a key factor in the performance of the NZD of late but for the record, electronic card transactions rose by much more than expected in September, rounding out the strongest quarter in 7½ years at 2.3% q/q. Higher fuel costs were only a minor factor, as excluding the auto sector core sales still rose by 2.1% q/q. The data

continued the theme of "hard" evidence showing the economy doing just fine, in comparison to the "soft" indicators like business confidence, which are currently giving a misleading steer on current economic activity.

The local rates market or currency didn't react to the data, with the 2-year swap rate unchanged at 2.03%. The market awaits Q3 CPI data next week, which is expected to show inflation running much stronger than the RBNZ projected.

It also feels like the market is in a wait-and-see mode ahead of US CPI data tonight, which is expected to show a tick up in annual core inflation. US PPI data released last night were in line with expectations.

In other economic news, UK GDP was flat in August, but the economy still appears to be on course for its best quarter in almost two years, with the 3-month change running at 0.7%. GBP was more impacted by Brexit news, where optimism prevails for a deal to be done. EU negotiator Barnier said that 80-85% of the withdrawal agreement has been reached. Insiders point to a compromise Brexit deal that could see the UK remain temporarily in the EU's customs regime. Bloomberg reported that UK and EU diplomats said intense negotiating over the next five days could result in a provisional agreement on the issue Monday. However, "while there is positive momentum, many issues remain unresolved". GBP continues to outperform, rising 0.5% to the 1.32 mark as short positions are unwound. NZD/GBP is down to 0.49.

EUR has risen alongside GBP to reach 1.1530. CAD is the weakest of the majors, with USD/CAD up 0.4% to 1.30 and NZD/CAD up 0.4% to 0.8415, not helped by a retreat in oil prices alongside Canadian oil benchmarks showing the widest discount to the US on record for a variety of factors including supply bottlenecks.

jason.k.wong@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
NZ	REINZ house sales (y/y%)	Sep		3.1	0.38
NZ	Food prices (m/m%)	Sep		-0.5	10:45
US	Fed's Bostic speaks on economic outlook				11:00
NZ	NZ to sell \$250m 2029 bonds				14:05
US	CPI ex food and energy (m/m%)	Sep	0.2	0.1	01:30
US	CPI ex food and energy (y/y%)	Sep	2.3	2.2	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	0.6470	-0.1	0.6454	0.6491	CHF	0.9905	-0.0				Oil (Brent)	83.45	-1.8
AUD	0.7098	-0.1	0.7087	0.7131	SEK	9.097	+0.1				Oil (WTI)	73.34	-2.0
EUR	1.1531	+0.3	1.1480	1.1545	NOK	8.206	-0.7				Gold	1187.2	+0.2
GBP	1.3204	+0.5	1.3137	1.3213	HKD	7.838	+0.1				HRC steel	832.0	+0.5
JPY	112.79	-0.2	112.60	113.29	CNY	6.924	+0.0				CRB	198.5	-1.0
CAD	1.3007	+0.5			SGD	1.381	-0.1				Wheat Chic.	532.3	-0.7
NZD/AUD	0.9115	+0.0			IDR	15,200	-0.2				Sugar	12.81	-1.3
NZD/EUR	0.5611	-0.4			THB	32.94	+0.0				Cotton	77.35	+0.4
NZD/GBP	0.4900	-0.5			KRW	1,134	-0.1				Coffee	112.7	-1.2
NZD/JPY	72.98	-0.2			TWD	31.00	+0.1				WM powder	2650.0	+0.0
NZD/CAD	0.8416	+0.4			PHP	54.20	+0.0				Australian Futures		
NZ TWI	71.10	-0.1									3 year bond	97.855	-0.02
											10 year bond	97.21	-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	2.25	2.42	3.07	3.27	USD	3.22	0.01	NZGB 6 05/15/21	1.81	0.01	1 year	1.95	0.01
AUD	1.50	1.93	2.05	2.94	AUD	2.75	-0.02	NZGB 5 1/2 04/15/23	2.01	0.00	2 year	2.03	0.00
NZD	1.75	1.89	2.03	2.92	NZD	2.49	0.00	NZGB 2 3/4 04/15/25	2.27	0.00	5 year	2.40	-0.01
EUR	0.00	0.06	-0.09	1.07	GER	0.55	0.00	NZGB 4 1/2 04/15/27	2.49	0.00	7 year	2.65	-0.01
GBP	0.75	0.81	1.22	1.80	GBP	1.73	0.01	NZGB 3 04/20/29	2.66	0.00	10 year	2.92	-0.02
JPY	-0.05	-0.08	0.06	0.36	JPY	0.16	-0.01	NZGB 3 1/2 04/14/33	2.84	0.00	15 year	3.18	-0.02
CAD	1.50	1.17	2.65	2.95	CAD	2.58	0.01	NZGB 2 3/4 04/15/37	2.97	0.01			

* 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 06:42

Source: Bloomberg

Contact Details

Jason Wong

Senior Markets Strategist
+64 4 924 7652

Nick Smyth

Interest Rate Strategist
+64 4 924 7653

National Australia Bank

Ray Attrill

Head of FX Strategy
+61 2 9237 1848

Rodrigo Catril

Senior FX Strategist
+61 2 9293 7109

Gavin Friend

Senior Market Strategist
+44 20 7710 1588

Skye Masters

Head of Fixed Income Research
+61 2 9295 1196

Alex Stanley

Senior Interest Rate Strategist
+61 2 9237 8154

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