Events Round-Up

NZ: Card spending retail (m/m%), Aug: 1.1 vs. 0.5 exp.
CH: CPI (y/y%), Aug: 2.8 vs. 2.7 exp.
CH: PPI (y/y%), Aug: -0.8 vs. -0.9 exp.
AU: NAB business conditions, Aug: 1 vs. 3 prev.
UK: Unemployment rate (%), Jul: 3.8 vs. 3.9 exp.
UK: Employment change (3m/3m), Jul: 31k vs. 55k exp.
UK: Weekly earnings ex-bonus (y/y%), Jul: 3.8 vs. 3.7 exp.
US: NFIB small business optimism, Aug: 103.1 vs. 103.5 exp.

Good Morning

Global bond yields have continued their recent resurgence overnight, helped by an MNI report that the ECB might delay, or make conditional, the resumption of QE. Reports that China had offered to buy more US agricultural goods ahead of the October trade talks also supported rates. Equity and currency market moves have been contained.

Global rates have headed higher again overnight, with the 10 year Treasury yield rising 6bps to 1.70%, its highest level in almost a month. The 10 year German bund yield was 4bps higher to -0.55% despite German finance minister Scholz saying that he intended to keep to a balanced budget next year and that fiscal stimulus would be reserved for a crisis. NZ’s 10 year swap rate rose 7bps yesterday to 1.34%, its highest level in a month, and that move should extend further when markets open this morning.

Ahead of the ECB meeting tomorrow night, MNI quoted sources at the central bank as saying that it was possible the ECB could announce a delayed start to QE, or that a resumption of the programme could be made conditional on further weakness in the economy. While the article said it was probably just a matter of time before the ECB restarted its QE programme, market expectations for the ECB are very high and bond investors are likely to be sensitive to any disappointment later this week. The EUR was little changed overnight after ticking up briefly after the headlines were released, suggesting the rise in bond yields was more positioning related.

After falling almost 50bps in August alone, the 10 year Treasury yield has risen 20bps so far this month (26bps from the intra-month lows). The broader bond market backdrop hasn’t changed materially, with growing evidence of a slow-down in global growth, no sign of any real breakthrough in the US-China trade dispute, inflation still contained, and central banks ready to provide more support to the economy. But after moving so far, so fast, bond markets are experiencing a correction, with positioning unwinds likely to have exacerbated the moves (surveys of investors suggest the market appears to be ‘long’, i.e. positioned for lower rates). If the ECB delivers with a dovish package of measures, including QE, on Thursday it should help contain the recent bond market sell-off, although if it disappoints, the bond market sell-off will extend.

On the trade front, the South China Morning Post reported that China had offered to buy more US agricultural goods in exchange for a delay in some US tariffs and a softening in restrictions on Huawei. The story didn’t appear new, with Politico having reported the claims last week, but it added to the sense that trade relations between the US and China are starting to thaw and the two sides are back negotiating.

US equity markets have fallen modestly, with the S&P500 and NASDAQ both down around 0.5%. Value stocks have outperformed, with the financials sector benefiting from the rise in rates, while sectors that are seen as ‘bond proxies’, such as utilities and real estate, have fallen. US equities have so far held up well in the face of the bond market correction, with the S&P500 less than 2% from its all-time highs.

FX market movements have been muted. USD/JPY has risen to its highest level in month than a month, at 107.50, as it has tracked the rise in US Treasury yields. Ahead of the ECB meeting, the EUR continues to hover just above 1.10, within proximity of its multi-year lows set earlier this month. The GBP is unchanged at 1.2350, with little market reaction to UK labour market data which showed a surprise fall in the unemployment rate and faster than expected wage growth (to 3.8%).

The NZD and AUD are similarly little changed over the past 24 hours amid relatively tight trading ranges. The NZD is currently 0.6420 while the AUD is at 0.6860. There wasn’t much market reaction to either NZ or Australian data released yesterday. In NZ, electronic transactions (ECT) data revealed an bounce back in spending in August (1.3% in value terms) after several months of subdued results. In Australia, business conditions in the NAB survey deteriorated further in August, falling from 3pts (revised...
up from 2pts) to 1pt, the lowest level since September 2014.

Finally, oil prices fell almost 2% from their highs of the day after Trump fired his national security advisor, and Iran hawk, John Bolton. Brent crude oil was 0.5% lower on the day, having earlier reached a one month high of $64.54 per barrel.

There is little on the cards for the session ahead.

nick.smyth@bnz.co.nz

Coming Up

<table>
<thead>
<tr>
<th>Period</th>
<th>Cons.</th>
<th>Prev.</th>
<th>NZT</th>
</tr>
</thead>
<tbody>
<tr>
<td>US PPI Ex Food and Energy (y/y%)</td>
<td>Aug 2.2</td>
<td>2.1</td>
<td>00:30</td>
</tr>
</tbody>
</table>

Source: Bloomberg, BNZ
## Contact Details

### BNZ Research

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Tel. Numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stephen Toplis</td>
<td>Head of Research</td>
<td>+64 4 474 6905</td>
</tr>
<tr>
<td>Craig Ebert</td>
<td>Senior Economist</td>
<td>+64 4 474 6799</td>
</tr>
<tr>
<td>Doug Steel</td>
<td>Senior Economist</td>
<td>+64 4 474 6923</td>
</tr>
<tr>
<td>Jason Wong</td>
<td>Senior Markets Strategist</td>
<td>+64 4 924 7652</td>
</tr>
<tr>
<td>Nick Smyth</td>
<td>Interest Rates Strategist</td>
<td>+64 4 924 7653</td>
</tr>
</tbody>
</table>

### Main Offices

#### Wellington
- Level 4, Spark Central
- 42-52 Willis Street
- Private Bag 39806
- Wellington Mail Centre
- Lower Hutt 5045
- New Zealand
  - Toll Free: 0800 283 269

#### Auckland
- 80 Queen Street
- Private Bag 92208
- Auckland 1142
- New Zealand
  - Toll Free: 0800 283 269

#### Christchurch
- 111 Cashel Street
- Christchurch 8011
- New Zealand
  - Toll Free: 0800 854 854

### National Australia Bank

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Tel. Numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ivan Colhoun</td>
<td>Global Head of Research</td>
<td>+61 2 9237 1836</td>
</tr>
<tr>
<td>Alan Oster</td>
<td>Group Chief Economist</td>
<td>+61 3 8634 2927</td>
</tr>
<tr>
<td>Ray Attrill</td>
<td>Head of FX Strategy</td>
<td>+61 2 9237 1848</td>
</tr>
<tr>
<td>Skye Masters</td>
<td>Head of Fixed Income Research</td>
<td>+61 2 9295 1196</td>
</tr>
</tbody>
</table>

#### Wellington
- Foreign Exchange
  - +800 642 222
- Fixed Income/Derivatives
  - +800 283 269

#### Auckland
- Foreign Exchange
  - +61 2 9295 1100
- Fixed Income/Derivatives
  - +61 2 9295 1166

#### Sydney
- Foreign Exchange
  - +61 2 9295 1100
- Fixed Income/Derivatives
  - +61 2 9295 1166

#### London
- Foreign Exchange
  - +44 20 7796 3091
- Fixed Income/Derivatives
  - +44 20 7796 4761

#### New York
- Foreign Exchange
  - +1 212 916 9631
- Fixed Income/Derivatives
  - +1 212 916 9677

#### Hong Kong
- Foreign Exchange
  - +85 2 2526 5891
- Fixed Income/Derivatives
  - +85 2 2526 5891

### Analyst Disclaimer

The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Global Markets Division of NAB.

NAB maintains an effective information barrier between the research analysts and its private side operations. Private side functions are physically segregated from the research analysts and have no control over their remuneration or budget. The research functions do not report directly or indirectly to any private side function. The Research analyst might have received help from the issuer subject in the research report.

New Zealand: This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. To the extent that any information or recommendations in this publication constitute financial advice, they do not take into account any person’s particular financial situation or goals. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication. National Australia Bank Limited is not a registered bank in New Zealand.

USA: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.