

12 October 2018



Events Round-Up

NZ: REINZ house sales (y/y%), Sep: -3.0 vs. 3.1

NZ: Food prices (m/m%), Sep: -0.1 vs. -0.5 prev.

US: CPI ex food and energy (m/m%), Sep: 0.1 vs. 0.2 exp.

US: CPI ex food and energy (y/y%), Sep: 2.2 vs. 2.3 exp.

Good Morning

Following yesterday's rout in global equities a risk-off tone remains evident, with the S&P500 making further losses overnight, while US 10-year Treasury yields are flat to down slightly. Despite the fall in risk appetite, the NZD has ended up one of the better performers as short-positions were likely pared.

After we went to print yesterday, US equities lunged further into negative territory and this spilled over into global markets, with NZ's high-flying equity market ending down a chunky 3.6%. No single trigger can adequately explain the sudden plunge in equity markets but a number of factors can be pointed at, including US rates having reached a tipping point late into the cycle, worries about the impact of higher oil prices, escalating US-China tensions (not just on trade but at a military level as well), an over-valued tech sector and allegations of Chinese chip-makers including devices in products to spy on their overseas customers, to name a few.

Overnight, President Trump blamed the Fed for the market rout saying "The Fed is out of control...I think what they're doing is wrong", but adding that he wasn't going to fire Fed Chair Powell. This followed his comments yesterday that the Fed has gone crazy and was making a mistake.

The S&P500 has spent most of the session so far in negative territory, down as much as 1½% recently and currently down about 1%, to sit just below its 200-day moving average. Earlier in the year the index broke down through that technical indicator a number of times but not for very long and recovered each time. Another lurch lower could well feed on itself, while a bounce would get the buy-the-dip brigade back into action, so we're currently at an interesting juncture.

Of some relief, US CPI inflation was lower than expected for the second month in a row, with the annual core measure staying steady at 2.2% y/y. The market still thinks another rate hike is likely in December as the tighter labour market forewarns future inflationary pressure, but

the softer inflation data supports the Fed's gradual approach to raising rates.

In other news, Dow Jones reported that President Trump is going to meet with his Chinese counterpart Xi at the G20 meeting next month. Later, Larry Kudlow told reporters he "can't officially" confirm Trump and Xi are planning to meet, saying only it's under discussion.

US Treasury yields have settled in a 3.14-3.19% range since the open of the Asian trading session, following the 8bps decline in late NY trading yesterday. Despite the softer inflation data, the 2-year rate shows some upward drift and is up 2bps from the NZ close compared to the flat 10-year rate. The market is taking the view that equity markets would have to show a much larger downward correction to sway the Fed from its gradual tightening path.

In currency markets, the NZD has outperformed despite the weaker risk appetite environment and has blasted up over 1% through the 0.65 mark and is higher on all the crosses. While this is unusual, in a big risk-off event the natural behaviour of traders is to shut down or reduce positions. Positioning in the NZD has been significantly short – the greatest on record according to CFTC data for non-commercial positions in the futures market – so NZD strength at a time like this suggests some short covering. Indeed, currency movements over the past 24 hours or so tells us a lot about positioning. The AUD has also outperformed but not to the extent of the NZD. The AUD has blasted up through 0.71, while NZD/AUD is up to 0.9160. With positioning a key factor behind the moves we wouldn't read too much into them or want to extrapolate the move too far into the future.

The weaker USD since this time yesterday likely reflects a reduction in long positioning, although Trump's outburst against the Fed and the softer CPI data haven't helped either. USD indices are down around 0.4-0.5% for the day. EUR is up 0.6% to 1.1590 while GBP is flat around the 1.32 mark. Brexit headlines remain confusing and conflicting. Italy remains a focus for the market and rates are modestly higher there ahead of Italy submitting its Budget. EU economy chief Moscovici said he'll try to bring Italy "closer" to EU spending rules in negotiations over the country's 2019 budget.

Finally, oil prices have retreated again. Alongside data showing some inventory build, OPEC cut its estimate for global demand for its crude next year by 900k barrels per day due to weakening economic growth and higher output from rivals, notably US shale drillers. Brent crude is down

3% to \$80.60 and well down from the \$86.70 peak of mid-last week.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	BNZ manufacturing PMI	Sep		52.0	10:30
AU	RBA Financial Stability Review				13:30
AU	Home loans (m/m%)	Aug	-1.0	0.4	13:30
EC	Industrial production (m/m%)	Aug	0.5	-0.8	22:00
CH	Trade balance (\$b)	Sep	19.2	28.1	
CH	Imports (\$, y/y%)	Sep	15.0	20.0	
CH	Exports (\$, y/y%)	Sep	8.1	9.8	
US	U. of Mich. cons. sent.	Oct	100.5	100.1	03:00

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	0.6523	+1.1	0.6471	0.6527	CHF	0.9919	+0.1	S&P 500	2,775	-0.8	8.6	Oil (Brent)	81.02	-3.0
AUD	0.7119	+0.9	0.7066	0.7129	SEK	9.000	-1.7	Dow	25,475	-0.7	11.4	Oil (WTI)	71.43	-2.7
EUR	1.1585	+0.6	1.1535	1.1599	NOK	8.213	-0.3	Nasdaq	7,431	-0.1	12.5	Gold	1220.0	+2.7
GBP	1.3214	+0.1	1.3182	1.3247	HKD	7.836	-0.0	Stoxx 50	3,209	-1.8	-11.0	HRC steel	830.0	+0.2
JPY	112.15	-0.1	112.07	112.53	CNY	6.890	-0.5	FTSE	7,007	-1.9	-7.0	CRB	197.0	-0.6
CAD	1.3024	-0.3			SGD	1.378	-0.5	DAX	11,539	-1.5	-11.0	Wheat Chic.	532.3	-0.5
NZD/AUD	0.9163	+0.2			IDR	15,235	+0.2	CAC 40	5,106	-2.5	-4.8	Sugar	12.95	+0.6
NZD/EUR	0.5631	+0.6			THB	32.66	-1.1	Nikkei	22,591	-3.9	7.8	Cotton	77.18	+0.6
NZD/GBP	0.4936	+1.0			KRW	1,144	+0.9	Shanghai	2,583	-5.2	-23.7	Coffee	112.7	+1.2
NZD/JPY	73.16	+1.1			TWD	31.10	+0.3	ASX 200	5,884	-2.7	1.5	WM powder	2650.0	+0.0
NZD/CAD	0.8496	+0.8			PHP	54.18	-0.0	NZX 50	8,721	-3.6	8.1			
NZ TWI	71.43	+0.8												

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	2.43	3.06	3.22	USD	3.17	0.01	NZGB 6 05/15/21	1.79	-0.02	1 year	1.95	0.00
AUD	1.50	1.94	2.04	2.91	AUD	2.73	-0.02	NZGB 5 1/2 04/15/23	1.99	-0.02	2 year	2.03	0.00
NZD	1.75	1.90	2.02	2.88	NZD	2.45	-0.03	NZGB 2 3/4 04/15/25	2.24	-0.03	5 year	2.38	-0.02
EUR	0.00	0.06	-0.09	1.06	GER	0.52	-0.03	NZGB 4 1/2 04/15/27	2.45	-0.03	7 year	2.63	-0.02
GBP	0.75	0.80	1.20	1.77	GBP	1.67	-0.05	NZGB 3 04/20/29	2.62	-0.04	10 year	2.90	-0.03
JPY	-0.05	-0.08	0.06	0.35	JPY	0.15	-0.01	NZGB 3 1/2 04/14/33	2.79	-0.04	15 year	3.15	-0.03
CAD	1.50	1.17	2.60	2.88	CAD	2.53	-0.01	NZGB 2 3/4 04/15/37	2.92	-0.05			

* 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 07:00

Source: Bloomberg

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