

12 September 2018



Events Round-Up

NZ: ANZ truckometer (m/m%), Aug: 1.1 vs. -0.3 prev.
NZ: Credit spending - retail (m/m%), Aug: 1 vs. 0.5 exp.
AU: NAB Business conditions, Aug: 15 vs. 13 prev.
AU: NAB Business confidence, Aug: 4 vs. 7 prev.
UK: Unemployment rate, Jul: 4% vs. 4% exp.
UK: Average weekly earnings ex-bonus (3m/3m%), Jul: 2.9 vs. 2.8 exp.
GE: ZEW survey expectations, Sep: -10.6 vs. -13.5 exp.
US: NFIB Small business optimism, Aug: 108.8 vs. 108 exp.
US: JOLTS Job openings, Jul: 6,939 vs. 6,675 exp.

Good Morning

US Treasury yields moved higher overnight, with the 10 year rate closing in on 3%. Second-tier US economic data remained robust and supportive of continued Fed tightening while US equities increased, boosting risk appetite. The NZD made a new low against the USD and sits just above 0.65.

While President Trump's decision on tariffs on the \$200b Chinese imports still hangs over the market (no news again overnight), US equities have had a positive session. The S&P500 recovered from earlier losses sustained after China applied to the WTO to retaliate against the US in relation to a 2017 anti-dumping dispute (i.e. pre-dating this year's trade escalation). The S&P500 is up 0.4%, leaving it less than 1% from its all-time highs reached late last month. The threat of possible trade tariffs continues to take a greater toll on Chinese equities, with the CSI300 down another 0.2% to its lowest level since 2016 (it is now down 27% since the highs in January).

The rise in the S&P500 was led by the energy sector after a 2% rise in crude oil. Brent crude oil rose to almost \$79 per barrel, near the highs reached in May, on reports of reduced Iranian supply, as US sanctions start to bite, and, additionally, on concerns that Hurricane Florence will affect US East Coast gasoline supplies.

The improvement in risk appetite alongside some better than expected US economic data has boosted US Treasury yields again. The 10 year Treasury yield rose 4bps to 2.97% while the 2 year yield rose 3bps to 2.75%. The NFIB small business survey hit its highest level in 45

years while the JOLTS survey revealed a further pick-up in job openings, to the highest level since the survey began in 2000. The "quits rate" in the JOLTS survey also increased to 2.4%, its highest level since 2001, and suggestive of further increases in US wage growth ahead. The US economic backdrop at present remains very supportive of further Fed tightening, and the market has upped its probability for a December hike to above 80% and increased rate hike pricing for 2019 to 42bps. In this environment, we would expect US Treasury yields to continue to grind higher.

There have been only modest moves in G10 currencies (with the exception of the Norwegian Krona, which has outperformed on growing rate hike expectations). The DXY index is 0.1% higher on the day. Interest rate differentials remain a supportive factor for the USD.

Against a backdrop of higher risk appetite, the Japanese yen is the weakest G10 currency on the day, down 0.4%. The Canadian dollar is 0.25% higher ahead of the resumption in US-Canada NAFTA negotiations. The JPM EMFX index is unchanged on the day.

The GBP is holding above the 1.30 level against the USD amidst a more positive tone to Brexit negotiations. The Times reported that the UK believed EU chief negotiator Michel Barnier's position on Chequers had shifted in recent weeks and the government was "very confident" a vote would pass through parliament. Separately, the European Research Group, comprised of Eurosceptic MPs, abandoned the publication of its 140 page post-Brexit plan yesterday, based around a Canada-style free-trade agreement. Supporters of a softer Brexit claimed that Brexiteers still could not come up with a workable alternative to the Chequers agreement or a "Plan B" they could agree on. UK economic data continues to have limited impact on the market, although the labour market report showed a larger than expected increase in wage growth to near its post-crisis highs, at 2.9%.

The NZD was again one of the weaker performing currencies on the day, continuing recent trends, and sits just above 0.65 against the USD. There wasn't anything obvious to point to for the underperformance in the NZD overnight, although the continued threat of Trump's tariffs on China, and the potential for corresponding weakness in the CNY, is probably still weighing on the NZD. Interest rate differentials also continue to move unfavourably for the NZD; the 2 year NZ-US swap differential is almost -100bps – a record low.

NZ swap rates drifted slightly lower yesterday, with the 2 year rate down 0.25bps and the 10 year rate down 0.75bps. We should see some upward movement today based on the moves in US Treasuries overnight, although so far this year there has been little sustained correlation between the long-end of the US and NZ curves. The 10 year Treasury yield is almost 60bps higher this year whereas the 10 year NZ swap rate is around 30bps lower. The OCR outlook remains the key driver of the NZ curve at present.

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Coming Up

		Period	Cons.	Prev.	NZT
EC	Industrial Production (y/y%)	Jul	1	2.5	21:00
US	PPI Ex Food and Energy (y/y%)	Aug	2.7	2.7	00:30
US	Fed's Bullard Speaks to CFA Society Chicago				01:30
US	Fed's Brainard Speaks in Detroit				04:45
US	U.S. Federal Reserve Releases Beige Book				06:00

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	0.6508	-0.3	0.6501	0.6541	CHF	0.9735	-0.2	S&P 500	2,890	+0.5	16.2	Oil (Brent)	79.14	+2.3
AUD	0.7101	-0.2	0.7085	0.7129	SEK	9.067	-0.0	Dow	25,994	+0.5	17.8	Oil (WTI)	69.40	+2.8
EUR	1.1587	-0.1	1.1566	1.1644	NOK	8.335	-0.7	Nasdaq	7,972	+0.6	23.9	Gold	1196.0	+0.1
GBP	1.3009	-0.1	1.2965	1.3087	HKD	7.850	-0.0	Stoxx 50	3,312	+0.1	-5.3	HRC steel	823.0	-0.2
JPY	111.57	+0.4	111.28	111.64	CNY	6.873	+0.3	FTSE	7,274	-0.1	-1.9	CRB	191.7	+0.3
CAD	1.3130	-0.3			SGD	1.377	-0.1	DAX	11,970	-0.1	-4.0	Wheat Chic.	537.8	-1.7
NZD/AUD	0.9165	-0.1			IDR	14,857	+0.2	CAC 40	5,284	-0.4	2.1	Sugar	11.18	-0.2
NZD/EUR	0.5617	-0.2			THB	32.78	-0.1	Nikkei	22,665	+1.3	16.0	Cotton	83.03	-1.4
NZD/GBP	0.5003	-0.1			KRW	1,125	-0.3	Shanghai	2,665	-0.2	-21.1	Coffee	100.5	-1.0
NZD/JPY	72.61	+0.1			TWD	30.81	-0.0	ASX 200	6,180	+0.6	8.2	WM powder	2735.0	+0.7
NZD/CAD	0.8545	-0.5			PHP	53.96	+0.2	NZX 50	9,226	+2.0	17.5	Australian Futures		
NZ TWI	71.22	-0.2										3 year bond	97.97	0.00
												10 year bond	97.41	-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	2.00	2.33	2.93	3.04	USD	2.98	0.04	NZGB 6 05/15/21	1.66	-0.00	1 year	1.94	0.00	
AUD	1.50	1.93	1.99	2.76	AUD	2.58	0.00	NZGB 5 1/2 04/15/23	1.89	0.00	2 year	1.98	-0.00	
NZD	1.75	1.90	1.98	2.82	NZD	2.38	0.01	NZGB 2 3/4 04/15/25	2.17	0.00	5 year	2.30	-0.01	
EUR	0.00	0.06	-0.15	0.94	GER	0.43	0.03	NZGB 4 1/2 04/15/27	2.38	0.01	7 year	2.55	-0.01	
GBP	0.75	0.80	1.12	1.58	GBP	1.50	0.03	NZGB 3 04/20/29	2.56	0.02	10 year	2.82	-0.01	
JPY	-0.05	-0.04	0.05	0.33	JPY	0.12	-0.00	NZGB 3 1/2 04/14/33	2.75	0.02	15 year	3.07	-0.01	
CAD	1.50	1.17	2.46	2.71	CAD	2.32	0.04	NZGB 2 3/4 04/15/37	2.90	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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