

14 August 2018



## Events Round-Up

NZ: Performance Services Index (PSI), Jul: 55.1 vs. 52.8 prev.

NZ: Food prices (m/m%), Jul: 0.7% vs. 0.5% prev.

## Good Morning

Turkey remains in the headlines after more volatility in the lira over the past 24 hours, but there has been limited contagion so far outside of other emerging market markets. Developed market equities are moderately lower overnight and core bond yields are little changed. The USD is stronger against emerging market currencies but is little changed against G10 currencies, including the NZD.

President Erdogan's fighting talk over the weekend, including his claim that interest rates were a "tool of exploitation" of the poor, set the scene for another major fall in the Turkish lira yesterday morning. The lira continued where it left off last week, opening 11% lower in illiquid conditions during the Asian session and taking the currency to a new low. This triggered a ripple effect, with the South African rand suddenly spiking 10% lower in thin conditions, although it subsequently reversed most of this move to be down only 2.4% on the day. US equity index futures also fell around 0.7% during the Asian session yesterday and US Treasury bond yields declined modestly as risk aversion edged higher.

The lira remains exceptionally volatile and is currently trading around 7 per USD (down 8% on the day). The Turkish central bank announced overnight it was cutting bank reserve requirements (intended to free up \$6b of USD liquidity) and pledged to "take all necessary measures" to stem the crisis, although it refrained from announcing a rate hike. Meanwhile, the Turkish banking regulator announced restrictions on TRY FX swaps to make it harder for speculators to short the currency. These are likely to be only short-term fixes however, and until there is a clear and credible policy response from Erdogan and the central bank, the TRY will remain under downward pressure. Investors worried about the possible imposition of capital controls (despite the finance minister's claims that these were not on the agenda) are likely to want to exit while they still can.

Risk sentiment has stabilized overnight and there hasn't been much contagion to other markets so far. The S&P500 is down 0.1% on the day and still within touch of

its record highs. The Eurostoxx index is 0.5% lower, weighed down by the banking sector. The European banking index fell to its lowest levels since late 2016, with BBVA and Unicredit (two banks with exposure to Turkey) down around 3%. Overnight, the Bundesbank's Joachim Wuermeling, who sits on the ECB's banking supervisory board, said investors shouldn't "over dramatize" the risk to the European banking sector from Turkey and that the ECB could always ask exposed banks to put more capital aside.

The USD is stronger across the board over the past 24 hours, with the exception of the Swiss Franc and Japanese Yen. But movements across G10 FX have been pretty modest. The Bloomberg dollar index (which includes EM currencies) has strengthened 0.3% and made a new year-to-date high.

The NZD started Monday morning on the back foot, reflecting the TRY's sharp fall and the ensuing 'risk-off' move in equities. The NZD fell to a low of 0.6557 at the start of the trading day, but it has mostly been trading sideways, within a narrow range since that point. The NZD/AUD has continued to recover from its sharp fall last week and now sits at 0.9050, close to where it was before the MPS (and firmly within the range that has prevailed over the past few years). Emerging market currency weakness continues to have a more pronounced effect on the AUD compared to the NZD.

Local NZ data had little impact on the NZD. The NZ PSI reversed around half its (large) fall from the previous month while food prices jumped 0.7% in July, which should be supportive of a Q3 headline CPI print above the RBNZ's 1.4% forecast. There was some profit-taking in the NZ swap market, with rates up slightly between 2 to 5 years.

Like US equities, core bond yields are little changed overnight. The 10 year Treasury is unchanged at 2.87%. The stand-out move in the bond market (besides EM) is Italy, where the 2 year Italian yield jumped 17bps to its highest level since June. The move higher in Italian yields likely reflects some general risk aversion related to Turkey as well as investor nervousness ahead of the Italian budget next month. The Italian 2 year yield is still more than 100bps lower than its peak earlier this year.

The major focus data-wise today will be the release of Chinese retail sales, fixed asset investment and industrial production data.

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Coming Up

	Period	Cons.	Prev.	NZT
AU NAB Business Conditions	Jul		15	13:30
CH Retail Sales y/y%	Jul	9.1	9	14:00
CH Industrial Production y/y%	Jul	6.3	6	14:00
CH Fixed Assets Ex Rural YTD y/y%	Jul	6	6	14:00
GE GDP q/q%	2Q P	0.4	0.3	18:00
UK Unemployment Rate 3m/3m%	Jun	4.2	4.2	20:30
UK Employment Change 3m/3m	Jun	93	137	20:30
EC GDP q/q%	2Q P	0.3	0.3	21:00
GE ZEW Survey Expectations	Aug	-21.3	-24.7	21:00
US NFIB Small Business Optimism	Jul	106.8	107.2	22:00

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	0.6573	-0.3	0.6570	0.6595	CHF	0.9936	-0.2	S&P 500	2,832	-0.0	16.0	Oil (Brent)	72.67	-0.2
AUD	0.7263	-0.5	0.7260	0.7292	SEK	9.126	+0.0	Dow	25,247	-0.3	15.5	Oil (WTI)	67.26	-0.5
EUR	1.1396	-0.1	1.1366	1.1433	NOK	8.371	+0.1	Nasdaq	7,841	+0.0	25.3	Gold	1195.6	-1.5
GBP	1.2755	-0.0	1.2730	1.2791	HKD	7.850	+0.0	Stoxx 50	3,410	-0.5	0.1	HRC steel	872.0	+0.3
JPY	110.68	-0.1	110.15	110.94	CNY	6.891	+0.7	FTSE	7,642	-0.3	4.5	CRB	190.3	-0.7
CAD	1.3141	+0.0			SGD	1.377	+0.3	DAX	12,359	-0.5	2.9	Wheat Chic.	553.5	-2.5
NZD/AUD	0.9050	+0.4			IDR	14,608	+0.9	CAC 40	5,412	-0.5	6.9	Sugar	10.30	-2.5
NZD/EUR	0.5768	+0.1			THB	33.37	+0.2	Nikkei	21,857	-2.0	11.9	Cotton	83.14	-3.8
NZD/GBP	0.5153	+0.0			KRW	1,134	+0.4	Shanghai	2,786	-0.3	-13.9	Coffee	109.3	-1.0
NZD/JPY	72.75	-0.4			TWD	30.83	+0.3	ASX 200	6,252	-0.4	9.1	WM powder	2960.0	-0.3
NZD/CAD	0.8638	-0.3			PHP	53.30	+0.3	NZX 50	8,945	-0.7	15.2	<b>Australian Futures</b>		
NZ TWI	71.77	+0.1										3 year bond	97.955	0.00
												10 year bond	97.42	-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	2.00	2.32	2.80	2.93	USD	2.87	0.00	NZGB 6 05/15/21	1.75	0.01	1 year	1.97	0.01	
AUD	1.50	1.96	2.06	2.78	AUD	2.58	-0.01	NZGB 5 1/2 04/15/23	1.94	0.00	2 year	2.01	0.02	
NZD	1.75	1.92	2.03	2.88	NZD	2.40	-0.01	NZGB 2 3/4 04/15/25	2.23	0.00	5 year	2.35	0.01	
EUR	0.00	0.06	-0.15	0.87	GER	0.31	-0.01	NZGB 4 1/2 04/15/27	2.40	-0.01	7 year	2.59	0.00	
GBP	0.75	0.81	1.07	1.53	GBP	1.25	0.01	NZGB 3 04/20/29	2.57	-0.01	10 year	2.87	-0.00	
JPY	-0.05	-0.04	0.05	0.32	JPY	0.10	0.00	NZGB 3 1/2 04/14/33	2.75	-0.02	15 year	3.12	-0.00	
CAD	1.50	1.17	2.45	2.66	CAD	2.30	-0.00	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 06:50

Source: Bloomberg

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