

14 September 2018



Events Round-Up

NZ: Food prices (m/m%), Aug: -0.5 vs. 0.7 prev.
AU: Employment change, Aug: 44k vs. 18k exp.
AU: Unemployment rate, Aug: 5.3 vs. 5.3 exp.
GE: CPI – EU harmonized (y/y%), Aug: 1.9 vs. 1.9 exp.
UK: BoE base rate, Sep: 0.75% vs. 0.75% exp.
EU: ECB deposit rate, Sep: -0.4% vs. -0.4% exp.
TY: One week repo rate, Sep: 24% vs. 21% exp.
US: CPI (y/y%), Aug: 2.7 vs. 2.8 exp.
US: CPI ex food and energy (y/y%), Aug: 2.2 vs. 2.4 exp.

Good Morning

US equities rose and US Treasury yields fell modestly after a lower than expected US core CPI release. The USD weakened after the CPI data too, although the NZD is not much higher than this time yesterday. There was little new information from both the ECB and BoE meetings, but the Turkish central bank raised its one week repo rate by a whopping 625bps, which has helped support EM currencies.

US bond yields have eased back a little from the key 3% level overnight after US headline and core CPI came in lower than expected. US inflation was weighed down, in part, by a very large fall in apparel prices (the biggest monthly decline since 1949), which can be volatile from month to month. Despite the CPI 'miss' this month, the underlying trend in wages and prices still looks to be gradually higher and there was only a small impact on Fed rate expectations. The US 10 year Treasury yield initially fell from 2.98% to 2.94% in the aftermath of the release, but it has now returned to 2.96%, a similar level to last night's close. Some upbeat comments from ECB President Draghi (more below) helped the recovery in US Treasury yields after the CPI release.

US equities were already higher on day prior to the CPI release, amidst the more positive tone surrounding the US-China trade dispute (the WSJ reported yesterday that US Treasury Secretary Mnuchin had invited his Chinese counterparts for a fresh round of talks). The CPI release gave US equities a further boost, and helped the S&P500 to a 0.5% increase on the day, with the NASDAQ 0.7% higher. Trump later took to Twitter to clarify the WSJ report, saying "*we are under no pressure to make a deal with China; they're under pressure to make a deal with*

us", which saw a modest retracement in equities. The S&P500 is less than 0.5% from the all-time highs reached late last month.

The USD has weakened, pretty much across the board, over the past 24 hours, with most of the move happening after the CPI release. The DXY fell another 0.2% to 94.5, and now sits towards the lower end of the trading range that has prevailed since July. The exception to the USD weakness in the G10 was the Japanese yen, which is 0.5% weaker on the day, likely related to the improvement in risk sentiment.

The ECB meeting passed with little fanfare overnight, but Draghi's comments were generally upbeat. He noted that "*we are observing an underlying strength of the economy that makes us think the downside risks are going to be mitigated by the improvement in the labour market and rising wages.*" The ECB lowered its GDP growth by 0.1% for this year and next but kept its inflation forecasts unchanged (at 1.7% for the next three years). Draghi confirmed that the ECB's QE programme will fall from €30b to €15b in October and stop at the end of the year. There should be next to no impact on the market from the end of QE, with the move having been well telegraphed for a very long period of time. Nonetheless, Draghi's positive comments helped the 10 year bund rise from 0.41% to 0.44%, although it retraced around half that move over the remainder of the European trading session. The EUR is the best performing G10 currency on the day, up 0.6% to near 1.17.

The BoE meeting was even less eventful, with the market much more interested in the outcome of Brexit negotiations than the BoE's current assessment of the economy. The Bank saw recent data as indicating that growth and wages were tracking a little stronger than it had anticipated in August, but not to such an extent as to change its broader outlook, which is for a very gradual path of rate hikes over the coming few years. The GBP was up similarly to the EUR, and is at its 1.3110, its highest level since the start of August.

In contrast, the Turkish central bank raised its one week repo rate by 625bps, to 24%, much higher than the median 325bp expectation. This set the stage for a 4% appreciation in the lira, and goes some way to restoring the central bank's credibility in the eyes of the market. The central bank decision came hours after President Erdogan had opined that "*we should cut this high interest rate*" but said he respected the central bank's

independence. The rally in the lira has helped support EM currencies more broadly, and the JPM EMFX index is 0.8% higher on the day.

The NZD is up a modest 0.2% against the USD over the past 24 hours. After rising as high as 0.6590 after the US CPI release, Trump's subsequent intervention of Twitter saw the NZD fall back from the highs of the day. NZ food price data in August was slightly lower than we had anticipated, but not enough to change our estimates for Q3 CPI of 0.8% (1.8% y/y). Our forecast for CPI is well above the RBNZ's 0.4% MPS forecast (1.4% y/y). We'll be interested in today's PMI release, which purports to measure actual activity (as surveyed by businesses), given recent business confidence readings.

Trump's China comments on Twitter again had a more meaningful impact on AUD than the NZD, and this has seen the NZD/AUD cross move back to 0.9135. The NZD/AUD had earlier fallen to 0.9107 after a stronger Australian labour market report, which showed a larger than expected increase in employment and a stable unemployment rate, courtesy of a rise in participation. Our NAB colleagues expect the Australian unemployment rate to keep tracking lower over the coming months, although RBA is expected to remain on hold for some

time.

NZ swap rates fell 0.25 to 1bp yesterday, although there were larger moves in long-dated government bonds after a very strong tender of the 2029 maturity bonds by the NZDMO. 10 year NZGB yields fell around 4bps on the day, more than reversing the previous day's rise.

In the session ahead, Chinese activity data is released as well as US retail sales.

nick.smyth@bnz.co.nz

Coming Up

	Period	Cons.	Prev.	NZT
NZ Manufacturing PMI	Aug		51.2	10:30
CH Retail Sales (y/y%)	Aug	8.8	8.8	14:00
CH Industrial Production (y/y%)	Aug	6.1	6	14:00
CH Fixed Assets Ex Rural YTD (y/y%)	Aug	5.6	5.5	14:00
US Retail Sales Ex Auto and Gas (m/m%)	Aug	0.5	0.6	00:30
US Retail Sales Control Group (m/m%)	Aug	0.4	0.5	00:30
US Fed Evans Speaks in Fort Wayne, Indiana				01:00
US Industrial Production (m/m%)	Aug	0.3	0.1	01:15
US Fed's Rosengren Speaks at Brookings Conference				02:00
US U. of Mich. Sentiment	Sep P	96.6	96.2	02:00

Source: Bloomberg, BNZ.

Foreign Exchange					Equities				Commodities**		
Indicative overnight ranges (*)					Major Indices				Price		
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day
NZD	0.6574	+0.2	0.6543	0.6590	S&P 500	2,902	+0.5	16.2	Oil (Brent)	78.39	-1.6
AUD	0.7196	+0.4	0.7176	0.7229	Dow	26,136	+0.5	18.0	Oil (WTI)	68.76	-2.2
EUR	1.1693	+0.6	1.1609	1.1701	Nasdaq	8,015	+0.8	24.1	Gold	1201.8	-0.3
GBP	1.3112	+0.5	1.3026	1.3124	Stoxx 50	3,334	+0.2	-5.4	HRC steel	833.0	+1.1
JPY	111.87	+0.5	111.37	111.96	FTSE	7,282	-0.4	-1.3	CRB	191.4	-1.0
CAD	1.2992	-0.0			DAX	12,056	+0.2	-4.0	Wheat Chic.	517.8	-1.8
NZD/AUD	0.9136	-0.1			CAC 40	5,328	+0.0	2.1	Sugar	11.68	-0.1
NZD/EUR	0.5622	-0.4			Nikkei	22,821	+1.0	15.2	Cotton	81.62	-0.9
NZD/GBP	0.5014	-0.3			Shanghai	2,687	+1.1	-20.3	Coffee	100.7	-1.6
NZD/JPY	73.54	+0.7			ASX 200	6,129	-0.8	6.8	WM powder	2700.0	-0.7
NZD/CAD	0.8541	+0.2			NZX 50	9,249	+0.6	18.3	Australian Futures		
NZ TWI	71.52	-0.0							3 year bond	97.945	-0.03
									10 year bond	97.40	-0.03

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	2.33	2.93	3.03	USD	2.96	-0.00	NZGB 6 05/15/21	1.66	-0.00	1 year	1.94	0.00
AUD	1.50	1.93	2.02	2.78	AUD	2.60	0.02	NZGB 5 1/2 04/15/23	1.88	-0.01	2 year	1.99	-0.00
NZD	1.75	1.90	1.98	2.82	NZD	2.36	-0.04	NZGB 2 3/4 04/15/25	2.15	-0.02	5 year	2.31	-0.00
EUR	0.00	0.06	-0.15	0.93	GER	0.42	0.01	NZGB 4 1/2 04/15/27	2.36	-0.04	7 year	2.55	-0.01
GBP	0.75	0.80	1.13	1.59	GBP	1.50	0.02	NZGB 3 04/20/29	2.54	-0.04	10 year	2.82	-0.01
JPY	-0.06	-0.04	0.05	0.33	JPY	0.11	-0.00	NZGB 3 1/2 04/14/33	2.73	-0.04	15 year	3.08	-0.01
CAD	1.50	1.17	2.47	2.71	CAD	2.32	-0.01	NZGB 2 3/4 04/15/37	2.88	-0.04			

* 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

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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