

15 October 2018



## Events Round-Up

- NZ: BNZ manufacturing PMI, Sep: 51.7 vs. 52.0 prev.
- AU: Home loans (m/m%), Aug: -2.1 vs. -1.0 exp.
- EC: Industrial production (m/m%), Aug: 1.0 vs. 0.5 exp.
- CH: Trade balance (\$b), Sep: 31.7 vs. 19.2 exp.
- CH: Imports (\$, y/y%), Sep: 14.3 vs. 15.3 exp.
- CH: Exports (\$, y/y%), Sep: 14.5 vs. 8.2 exp.
- US: U. of Mich. cons. sent., Oct: 99.0 vs. 100.5 exp.

## Good Morning

Friday night saw another choppy trading session on Wall Street and the net result was a decent rally. Volatility in other asset classes remained subdued, with only modest changes in currencies and little change in US Treasuries.

Trading conditions were fairly calm throughout Friday, with volatility confined to equity markets. The S&P500 closed the session up 1.4% after trading a range of flat to +1.7% throughout the day. It ended a volatile week with the index down 4.1%. Despite the turmoil during the week the chartists will note the index closing 1 point above its 200-day moving average, a positive sign. However, even if trading conditions normalise over coming weeks, last week's price action was a reminder that when you're late into a bull cycle and interest rates are trending higher, then a shift higher in volatility is completely normal.

The economic data flow was light on Friday. US consumer sentiment slightly undershot expectations but remained at a very high level. China's trade surplus was stronger than expected in September, driven by strong export growth. However, much of the surprise was in shipments of products heavily targeted by US tariffs, suggesting that companies rushed existing orders out the door before the full force of the tariffs hit.

US 10-year Treasuries followed the ups and downs of S&P futures during the day, seeing the yield down at 3.13% at the low and closing at 3.16%, up 1bp for the day and down 1bp from the NZ close. In a TV interview Chicago Fed President Evans, a former dove and now more in line with the median, said he supported tightening policy until at least a neutral level for the Fed Funds rate is achieved, said to be between 2.75-3%. "Let's see how the economy is performing at that point, and then we might have to do a little bit more at that point...maybe 50 basis points above" that threshold.

Currency markets were tightly range-bound on Friday, with only some weakness in GBP of note, down 0.6% to 1.3150. Bloomberg reported that UK and EU officials are discussing a new proposal to solve the last major hurdle in Brexit talks and soothe the concerns of PM May's Northern Irish allies, according to diplomats. The new proposal is to allow for the transition – the 21-month grace period that's due to kick in after Brexit day – to be extended if needed. However, the FT reported that PM May "faces cabinet revolt" over her customs union plan. Brexit negotiators want to agree a complete draft withdrawal treaty ahead of the EU summit on Wednesday. Expect some GBP volatility in the week ahead as negotiations continue.

The NZD traded a tight 24pip range on Friday night and closed the week around 0.6510. In an interview Friday night, Finance Minister Robertson said he's "not uncomfortable" with the NZD at the moment, "It's down to the mid-60s and some would argue it's probably in a more sustainable position", he added. For the week the NZD was up 1% and was up on most crosses apart from a slight fall against JPY – not a bad performance considering the big drop in risk appetite during the week. As noted previously, this likely reflected some short-covering, as appetite to hold positions across a number of financial assets diminished.

The NZ rates market showed some modest upward movement on Friday and for the week, suggesting that the local market was continuing to march to its own beat and wasn't particularly tied to the US market. The modest rise in NZ rates for the week was in the opposite direction to the 7bps fall in the US 10-year Treasury yield.

US retail sales data are released tonight, but after last week's market volatility, other factors are likely playing on the mind of investors, including how the earnings season that has just begun is playing out and whether the S&P500 can hold above the key 200-day moving average. Domestically, we'll be focused on NZ's Q3 CPI report tomorrow, which is expected to show inflation – headline and core – tracking above RBNZ estimates.

[jason.k.wong@bnz.co.nz](mailto:jason.k.wong@bnz.co.nz)

## Coming Up

		Period	Cons.	Prev.	NZT
NZ	Performance of services index	Sep		53.2	10:30
US	Retail sales advance (m/m%)	Sep	0.6	0.1	01:30
US	Retail sales ex auto, gas (m/m%)	Sep	0.4	0.2	01:30

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	0.6507	-0.2	0.6500	0.6524	CHF	0.9929	+0.4				Oil (Brent)	80.43	+0.2		
AUD	0.7114	-0.1	0.7102	0.7140	SEK	8.962	-0.1	S&P 500	2,767	+1.4	8.4	Oil (WTI)	71.34	+0.5	
EUR	1.1560	-0.3	1.1535	1.1610	NOK	8.174	-0.5	Dow	25,340	+1.1	10.8	Gold	1218.1	-0.4	
GBP	1.3153	-0.6	1.3151	1.3258	HKD	7.835	+0.0	Nasdaq	7,497	+2.3	13.5	HRC steel	835.0	+0.6	
JPY	112.21	+0.0	111.88	112.50	CNY	6.922	+0.5	Stoxx 50	3,194	-0.5	-11.4	CRB	197.9	+0.7	
CAD	1.3024	-0.1			SGD	1.378	+0.1	FTSE	6,996	-0.2	-7.2	Wheat Chic.	537.5	+1.6	
NZD/AUD	0.9147	-0.1			IDR	15,197	-0.2	DAX	11,524	-0.1	-11.3	Sugar	13.07	+1.2	
NZD/EUR	0.5629	+0.1			THB	32.75	+0.1	CAC 40	5,096	+1.5	-4.8	Cotton	78.37	+2.0	
NZD/GBP	0.4947	+0.4			KRW	1,131	-1.1	Nikkei	22,695	+0.5	7.3	Coffee	116.6	+3.2	
NZD/JPY	73.02	-0.1			TWD	30.86	-0.8	Shanghai	2,607	+0.9	-23.1	WM powder	2620.0	-1.1	
NZD/CAD	0.8475	-0.2			PHP	54.08	-0.2	ASX 200	5,896	+0.2	1.4	<b>Australian Futures</b>			
NZ TWI	71.36	-0.1						NZX 50	8,843	+1.4	9.3	3 year bond	97.885	-0.01	
													10 year bond	97.26	-0.01
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	2.25	2.44	3.04	3.21	USD	3.16	0.01	NZGB 6 05/15/21	1.82	0.03	1 year	1.96	0.01		
AUD	1.50	1.94	2.04	2.90	AUD	2.75	0.02	NZGB 5 1/2 04/15/23	2.02	0.03	2 year	2.04	0.01		
NZD	1.75	1.89	2.02	2.93	NZD	2.48	0.03	NZGB 2 3/4 04/15/25	2.28	0.03	5 year	2.41	0.02		
EUR	0.00	0.06	-0.10	1.03	GER	0.50	-0.02	NZGB 4 1/2 04/15/27	2.48	0.03	7 year	2.65	0.03		
GBP	0.75	0.81	1.18	1.72	GBP	1.63	-0.04	NZGB 3 04/20/29	2.65	0.04	10 year	2.93	0.03		
JPY	-0.05	-0.08	0.06	0.35	JPY	0.15	0.00	NZGB 3 1/2 04/14/33	2.83	0.04	15 year	3.18	0.03		
CAD	1.50	1.17	2.59	2.87	CAD	2.50	-0.00	NZGB 2 3/4 04/15/37	2.96	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 NY close Sat morning

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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