

16 August 2018



Events Round-Up

NZ: REINZ house sales (y/y%), Jul: 0.7% vs. -1.6% prev.

AU: Wage price index (y/y%), Q2: 2.1% vs. 2.1% exp.

UK: CPI (y/y%), Jul: 2.5% vs. 2.5% exp.

UK: Core CPI (y/y%), Jul: 1.9% vs. 1.9% exp.

US: Retail sales ex auto and gas (m/m%), Jul: 0.6% vs. 0.4% exp.

US: Empire manufacturing survey, Aug: 26.6 v 20 exp.

US: Industrial production (m/m%), Jul: 0.1% vs. 0.3% exp.

Good Morning

There is a general risk-off tone to markets over the past 24 hours, with emerging markets remaining under pressure, despite a further recovery in the Turkish lira. There has been some spill-over via lower global equity markets, commodity prices, and bond yields. The USD has continued to strengthen, although mainly against emerging market currencies. The NZD made a fresh low overnight, but hasn't been overly affected thus far by the pick-up in risk aversion.

The main story overnight is the broad-based weakness across the emerging markets universe – both in currencies and equities. The MSCI EM equity index fell around 3%, with the index technically entering a bear market from its most recent peak in January. China's tech giant Tencent, which has the largest weight in the MSCI EM index at nearly 5%, reported a drop in profits in its earnings report and noted that Chinese regulatory issued had affected its gaming franchise. The pressure on emerging markets has been building for the past six months amidst continued Fed tightening and QE withdrawal, a strengthening USD and growing concerns about Chinese economic growth (especially given the risk of serious trade war escalation with the US).

In currencies, the USD/CNY made a new high yesterday, above 6.93. It is now just below the 2016 highs and within reach of the psychologically important 7.0 level. There was also broader weakness across EMFX, with the South African rand down 2% and the Brazilian real down 1% (both currencies have fallen around 15% this year). In a sign that emerging market central banks are starting to pivot to tighter policy to stem currency weakness, Indonesia's central bank unexpectedly raised rates yesterday – this is what tends to happen when the Fed is tightening policy, but it's clearly another negative for EM

domestic growth.

The odd one out overnight was the Turkish lira, which strengthened 5% after an announcement that Qatar would commit \$15b of direct investment to the country and the Turkish banking regulator further tightened limits on TRY FX swaps (making it more expensive for speculators to short the currency). President Erdogan kept up his diplomatic confrontation with the US by announcing tariffs of 60% to 140% on various imported US goods. The broad sell-off in emerging markets despite some temporary respite in Turkey highlights that there are bigger underlying factors at play (Fed policy, Chinese growth, trade wars) than simply potential contagion from the lira.

Commodity markets have moved sharply lower overnight as well. Copper fell around 4%, and is now down more than 20% from its recent peak in June (incidentally, around the time when the CNY started weakening). Oil prices also fell 2-3%, after the US DOE revealed a large increase in crude oil inventories in its weekly report.

The weakness in EM equities flowed through into developed markets as well, with the S&P500 falling around 1%, European bourses between 1-2% lower and the VIX ticking up to 15. Tencent's earnings miss also weighed on the NASDAQ, which declined 1.4%. Government bond yields declined in sympathy with the move in equities, with the US 10 year yield falling 4bps to 2.86%, despite generally better than expected US data. US retail sales surprised on the upside (although prior months were revised lower) while the Empire manufacturing index beat expectations. The Atlanta Fed's GDPNow initial estimate for Q3 GDP was unchanged at 4.3%.

Against a backdrop of increased risk aversion, commodity price falls, and EMFX and CNY weakness, one might have expected the NZD to be quite a bit weaker overnight. This hasn't been the case though; the NZD has traded a very narrow range overnight and is not far from where it was trading this time yesterday, at 0.6565. In fact, with the exception of the CAD and NOK (both affected by the oil price fall), moves within G10 FX have generally been pretty muted over the past 24 hours. The EUR is also close to where it was trading this time yesterday. The Japanese yen and the Swiss franc are the two strongest currencies over the session, reflecting the risk-off tone to markets.

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Coming Up

		Period	Cons.	Prev.	NZT
AU	Employment Change	Jul	15	50.9	13:30
AU	Unemployment Rate	Jul	5.4	5.4	13:30
NZ	Non Resident Bond Holdings	Jul		58.1	15:00
UK	Retail Sales Ex Auto Fuel YoY	Jul	2.8	3	20:30
US	Philadelphia Fed Business Outlook	Aug	22	25.7	00:30
US	Housing Starts	Jul	1260	1173	00:30

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	0.6561	-0.2	0.6569	0.6610	CHF	0.9932	-0.1	S&P 500	2,810	-1.0	14.0	Oil (Brent)	70.92	-2.1
AUD	0.7235	-0.1	0.7224	0.7282	SEK	9.211	+0.8	Dow	25,054	-1.0	13.9	Oil (WTI)	65.08	-2.9
EUR	1.1345	+0.0	1.1330	1.1429	NOK	8.455	+0.5	Nasdaq	7,750	-1.6	22.4	Gold	1180.1	-1.3
GBP	1.2692	-0.2	1.2705	1.2827	HKD	7.850	+0.0	Stoxx 50	3,359	-1.5	-3.0	HRC steel	871.0	+0.8
JPY	110.58	-0.5	110.76	111.32	CNY	6.935	+0.7	FTSE	7,498	-1.5	1.5	CRB	186.9	-1.8
CAD	1.3141	+0.6			SGD	1.380	+0.2	DAX	12,163	-1.6	-0.1	Wheat Chic.	551.8	-1.7
NZD/AUD	0.9068	-0.1			IDR	14,577	-0.1	CAC 40	5,305	-0.7	3.2	Sugar	10.23	-1.1
NZD/EUR	0.5783	-0.2			THB	33.35	+0.2	Nikkei	22,204	-0.7	12.5	Cotton	81.08	-2.6
NZD/GBP	0.5169	+0.0			KRW	1,132	+0.4	Shanghai	2,723	-2.1	-16.1	Coffee	106.0	-2.5
NZD/JPY	72.55	-0.7			TWD	30.85	+0.2	ASX 200	6,329	+0.5	9.4	WM powder	2955.0	+0.0
NZD/CAD	0.8622	+0.5			PHP	53.54	+0.1	NZX 50	8,987	+0.2	14.4	Australian Futures		
NZ TWI	71.83	+0.0										3 year bond	97.97	0.02
												10 year bond	97.45	0.04
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	Last			
USD	2.00	2.32	2.79	2.92	USD	2.85	-0.05	NZGB 6 05/15/21	1.75	0.00	1 year	1.98	0.00	
AUD	1.50	1.95	2.03	2.75	AUD	2.58	-0.01	NZGB 5 1/2 04/15/23	1.94	0.00	2 year	2.03	-0.01	
NZD	1.75	1.92	2.03	2.88	NZD	2.41	-0.00	NZGB 2 3/4 04/15/25	2.23	-0.00	5 year	2.37	-0.00	
EUR	0.00	0.06	-0.16	0.86	GER	0.30	-0.02	NZGB 4 1/2 04/15/27	2.41	-0.00	7 year	2.61	-0.01	
GBP	0.75	0.80	1.06	1.51	GBP	1.23	-0.04	NZGB 3 04/20/29	2.57	-0.01	10 year	2.88	-0.02	
JPY	-0.05	-0.03	0.05	0.32	JPY	0.10	-0.01	NZGB 3 1/2 04/14/33	2.74	-0.00	15 year	3.13	-0.01	
CAD	1.50	1.17	2.42	2.65	CAD	2.27	-0.05	NZGB 2 3/4 04/15/37	2.89	-0.00				

* 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 06:51

Source: Bloomberg

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