

16 October 2018



Events Round-Up

NZ: Perform. of services index, Sep: 53.9 vs. 53.2 prev

US: Retail sales advance (m/m%), Sep: 0.1 vs. 0.6 exp.

US: Retail sales ex auto, gas (m/m%), Sep: 0.0 vs. 0.3 exp.

Good Morning

US equities have opened the new trading week on a calmer note, although it's too early to declare that the period of heightened volatility is over. UST yields are trading a very tight range, while the USD has weakened across the board and the NZD has been the strongest of the majors.

During the NZ-Asian trading session it looked like it might be another rough day at the office with a series of negative news soundbites. There was hard talk between the US and Saudi Arabia as authorities investigate the mysterious disappearance of a Washington Post journalist inside the Saudi embassy in Turkey; there were reports of Brexit negotiations coming to a stalemate over the weekend ahead of this week's EU summit; and Trump made a number of anti-China comments in a TV interview, reiterating his threats to impose more tariffs and arguing that China is meddling in US elections. Against this backdrop S&P futures were negative and down by 0.8% near the close of Asia trading.

US equities opened on a soft note and have spent much of the session in negative territory, but "only" down 0.6% at its low and currently only down slightly. So a lot less volatility for the session compared to last week's price action, with the index hovering precariously around its 200-day moving average.

President Trump spoke with the Saudi King on a phone call, who strongly denied his government was behind the killing of the journalist. This led Trump to suggest that it might have been "rogue killers" and he sent Secretary of State Pompeo to investigate further. This has taken some heat out of oil prices, which were heading higher, but are now broadly flat.

The USD is weaker across the board for no obvious reason. It started weakening as European markets opened and fell 0.3% on Bloomberg's DXY index over a few hours before tracking sideways. US headline and core retail sales data came in much weaker than expected, but the "control" group which feeds into GDP

and excludes food services (likely impacted by Hurricane Florence) was more or less in line with expectations. The USD was already weak well before that release and there was little market reaction to the report. USD weakness might simply reflect a paring of long positions.

Against a backdrop of a softer USD and better sentiment for emerging market currencies, the NZD has been the strongest of the majors, currently up 0.6% around 0.6550. This might reflect a paring of short positions as traders take risk off the table. CFTC data released over the weekend showed record short NZD positions through to Tuesday last week. The NZD's outperformance last week likely reflected some closing of these positions and that theme might be continuing. We see this as a smart move ahead of today's Q3 CPI report, where we see upside risk relative to the consensus estimate of 0.7% q/q and the RBNZ's (out-of-date) 0.4% estimate. More importantly, core inflation could well tick higher, providing some food for thought to the RBNZ as it begins to prepare its next set of forecasts for the November MPS.

The NZD is higher on all the key crosses, with NZD/AUD up to 0.3% 0.9175 and NZD/EUR up 0.3% to 0.5650. GBP has been on the soft side, flat against the USD at 1.3150, albeit recovering after the losses seen during the Asian trading session. As usual, there have been a number of Brexit headlines with negotiations intensifying. There is a desire to draft up a withdrawal agreement to discuss at the EU summit which kicks off mid-week. After reports of a stalemate over the weekend, overnight UK PM May said that progress on the Northern Ireland border issue has been made and she doesn't think the EU and UK are far apart.

In the bond market, the US 10-year rate has traded a tight 3.14-3.16% range, showing very little pulse. The local rates market saw modest falls in rates across the curve, reflecting the negative global vibe at the time. A CPI result today in line with our expectations, and some further rise in core and non-tradables inflation, would raise the hurdle for rate cuts. The market currently places around a 25% chance of a rate cut by August 2019. In terms of market implications, our base case is that 2.10% in 2 year swap should provide strong resistance in the first instance.

jason.k.wong@bnz.co.nz

Coming Up

| | | Period | Cons. | Prev. | NZT |
|----|--------------------------------------|--------|-------|-------|-------|
| NZ | CPI (q/q%) | Q3 | 0.7 | 0.4 | 10:45 |
| NZ | CPI (y/y%) | Q3 | 1.7 | 1.5 | 10:45 |
| CH | PPI (y/y%) | Sep | 3.6 | 4.1 | 14:30 |
| CH | CPI (y/y%) | Sep | 2.5 | 2.3 | 14:30 |
| UK | ILO unemployment rate (%) | Aug | 4.0 | 4.0 | 21:30 |
| GE | ZEW survey expectations | Oct | -12 | -10.6 | 22:00 |
| NZ | GDT dairy auction avg. winning price | | | 2901 | |
| US | Industrial production (m/m%) | Sep | 0.2 | 0.4 | 02:15 |
| US | NAHB housing market index | Oct | 67 | 67 | 03:00 |

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 | 0.6543 | +0.6 | 0.6501 | 0.6557 | CHF | 0.9875 | -0.5 | S&P 500 | 2,757 | -0.1 | 8.0 | Oil (Brent) | 80.41 | +0.1 |
| AUD | 0.7135 | +0.3 | 0.7102 | 0.7149 | SEK | 8.942 | -0.1 | Dow | 25,348 | +0.4 | 10.8 | Oil (WTI) | 71.43 | +0.2 |
| EUR | 1.1577 | +0.1 | 1.1543 | 1.1606 | NOK | 8.148 | -0.2 | Nasdaq | 7,467 | -0.1 | 13.0 | Gold | 1227.3 | +0.8 |
| GBP | 1.3151 | -0.0 | 1.3105 | 1.3182 | HKD | 7.836 | +0.0 | Stoxx 50 | 3,210 | +0.5 | -10.9 | HRC steel | 833.0 | -0.2 |
| JPY | 111.86 | -0.3 | 111.63 | 112.09 | CNY | 6.917 | -0.1 | FTSE | 7,029 | +0.5 | -6.7 | CRB | 199.1 | +0.6 |
| CAD | 1.2992 | -0.2 | | | SGD | 1.376 | -0.2 | DAX | 11,614 | +0.8 | -10.6 | Wheat Chic. | 538.5 | +0.4 |
| NZD/AUD | 0.9170 | +0.2 | | | IDR | 15,220 | +0.2 | CAC 40 | 5,095 | -0.6 | -4.8 | Sugar | 13.41 | +2.6 |
| NZD/EUR | 0.5652 | +0.3 | | | THB | 32.64 | -0.3 | Nikkei | 22,271 | -1.9 | 4.8 | Cotton | 78.39 | +0.4 |
| NZD/GBP | 0.4975 | +0.5 | | | KRW | 1,134 | +0.3 | Shanghai | 2,568 | -1.5 | -24.0 | Coffee | 119.2 | +2.1 |
| NZD/JPY | 73.19 | +0.2 | | | TWD | 30.90 | +0.1 | ASX 200 | 5,837 | -1.0 | -0.2 | WM powder | 2605.0 | -0.6 |
| NZD/CAD | 0.8501 | +0.3 | | | PHP | 54.12 | +0.1 | NZX 50 | 8,838 | -0.1 | 9.2 | Australian Futures | | |
| NZ TWI | 71.71 | +0.5 | | | | | | | | | | 3 year bond | 97.89 | 0.00 |
| | | | | | | | | | | | | 10 year bond | 97.29 | 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 | | Last | |
| USD | 2.25 | 2.44 | 3.05 | 3.21 | USD | 3.16 | -0.00 | NZGB 6 05/15/21 | 1.81 | -0.01 | 1 year | 1.95 | -0.01 | |
| AUD | 1.50 | 1.94 | 2.04 | 2.89 | AUD | 2.69 | -0.06 | NZGB 5 1/2 04/15/23 | 2.00 | -0.02 | 2 year | 2.02 | -0.01 | |
| NZD | 1.75 | 1.89 | 2.02 | 2.89 | NZD | 2.47 | -0.01 | NZGB 2 3/4 04/15/25 | 2.26 | -0.02 | 5 year | 2.38 | -0.03 | |
| EUR | 0.00 | 0.06 | -0.10 | 1.05 | GER | 0.50 | 0.01 | NZGB 4 1/2 04/15/27 | 2.47 | -0.01 | 7 year | 2.62 | -0.03 | |
| GBP | 0.75 | 0.81 | 1.16 | 1.71 | GBP | 1.61 | -0.02 | NZGB 3 04/20/29 | 2.64 | -0.02 | 10 year | 2.89 | -0.04 | |
| JPY | -0.04 | -0.09 | 0.06 | 0.35 | JPY | 0.14 | -0.01 | NZGB 3 1/2 04/14/33 | 2.82 | -0.01 | 15 year | 3.14 | -0.04 | |
| CAD | 1.50 | 1.17 | 2.62 | 2.88 | CAD | 2.51 | 0.01 | NZGB 2 3/4 04/15/37 | 2.95 | -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 06:44

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

Analyst Disclaimer: The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Global Markets Division of NAB.

NAB maintains an effective information barrier between the research analysts and its private side operations. Private side functions are physically segregated from the research analysts and have no control over their remuneration or budget. The research functions do not report directly or indirectly to any private side function. The Research analyst might have received help from the issuer subject in the research report.

New Zealand: This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. To the extent that any information or recommendations in this publication constitute financial advice, they do not take into account any person's particular financial situation or goals. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication. **National Australia Bank Limited is not a registered bank in New Zealand.**

USA: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.