Events Round-Up

NZ: Westpac cons. confid., Q3: 103.1 vs. 103.5 prev.
AU: House price index (q/q%), Q2: -0.7 vs. -1.0 exp.
GE: ZEW survey expectations, Sep: -22.5 vs. -38.0 exp.
NZ: GDT dairy auction price index: +2%
US: Industrial production (m/m%), Aug: 0.6 vs. 0.2 exp.
US: NAHB housing market index, Sep: 68 vs. 66 exp.

Good Morning

Oil prices have reversed course after it looks like Saudi oil production will be fully restored by the end of the month. The NZD and AUD have recovered losses seen during local trading, while EUR and GBP have reversed losses seen earlier this week. US equities are flat, while US Treasury yields are lower.

Brent crude is down over 6% for the day to USD64.50 per barrel, with prices falling after Reuters reported that lost Saudi Arabia oil production is close to being 70% restored and that production will be fully back online in the next two to three weeks. This was later confirmed, with Saudi’s oil minister saying that just under half of lost oil production has returned to the market and production will be 11m barrels per day by the end of September, its pre-attack level.

So while it looks like oil production will be restored earlier than feared and the oil market will return to balance quite quickly, some sort of higher oil risk premium is likely to be sustained, given the evident vulnerability to supplies and as we await the US response to the attacks. CBS news reported that the US has identified the exact locations in southern Iran from which more than 20 drones and cruise missiles were launched against the Saudi oil facilities. Over to you, Mr Trump, for your orders.

US second-tier economic data came in stronger than market expectations, with US homebuilder sentiment up to an 11-month high, supported by mortgage rates running at 3-year lows. Industrial production was stronger in August, although supported by some one-off factors, with leading indicators pointing to recessionary-like conditions in that sector, not helped by the trade war. The data had little impact on the market.

In currency markets, the USD has come under some pressure, reversing a lot of its post-attack gains earlier in the week, with the EUR and GBP the main beneficiaries – up 0.6% to 1.1070 and 1.2510 respectively.

The AUD was weaker yesterday, with the RBA minutes of the September meeting seen to be more dovish than expected. The key policy paragraph dropped reference to waiting for an “accumulation” of evidence in deciding to cut rates again, seen to lower the hurdle for another rate cut. The statement also conveyed a more cautious global and domestic economic outlook. We continue to expect another 25bps rate cut in November, but the labour market report Thursday could tip the balance to October if it comes in much weaker than expected. The AUD fell 30pips or so to 0.6830, but has since recovered to trade at 0.6860, helped by a weaker USD.

The NZD fell in sympathy but found some support just below 0.6325 and is back up through 0.6350 this morning. The NZD/AUD cross rate is hovering around 0.9250, with the dovish RBA minutes alleviating some of the hitherto downward pressure. The GDT dairy auction price index rose by 2.0%, more in less in line with expectations for a mildly positive result. Prices were higher across most product lines, including a 1.9% gain for whole milk powder. The gain in prices after three negative auctions should solidify expectations for the current season milk payout.

Despite the more positive news on Saudi oil production, US Treasury yields haven’t reversed course and downside pressure has remained, seeing the 10-year rate trade this morning at 1.81%, down 4bps for the day and a couple of bps lower since the NZ close. There has been a fair amount of dislocation in US money markets this week. The New York Fed was forced into conducting its first overnight system repurchase agreement in a decade after a surge in USD funding rates that rose as high as 10%. After offering $75b, some $53b was injected into the market. Problems in US short-term funding markets have been brewing recently, given the surge in US Treasury bonds and bills issuance and a lack of excess bank reserves, putting upward pressure on the important Fed Funds rate. Some experts suggest it points to a structural flaw in the market and a more permanent solution will need to be found, otherwise these operations will become more frequent.

Yesterday, the NZ government launched its syndication of a new May 2031 nominal bond, capped at $2bn. But the prevailing force on NZ rates was the downdraft in global yields, seeing government rates close 5-6bps lower across the curve, with similar moves in longer term swap rates.
Trading activity is expected to be light ahead of the Fed’s policy update at 6am tomorrow NZ time. A 25bps rate cut is well priced, taking the range down to 1.75-2.0%. The focus will turn to the language used by Fed Chair Powell. As in his Jackson Hole speech, we expect language around “trade uncertainty” to get widespread airing and the path of monetary policy from here shouldn’t be locked down too hard, with an easing bias likely to clearly remain in force. The dotplot of the projected Fed Funds rate is expected to show at least one more 25bps cut, probably before year-end, well short of current market pricing which shows another 1½ rate cuts through next year.

jason.k.wong@bnz.co.nz
Contact Details

BNZ Research

Stephen Toplis  
Head of Research  
+64 4 474 6905

Craig Ebert  
Senior Economist  
+64 4 474 6799

Doug Steel  
Senior Economist  
+64 4 474 6923

Jason Wong  
Senior Markets Strategist  
+64 4 924 7652

Nick Smyth  
Interest Rates Strategist  
+64 4 924 7653

Main Offices

Wellington  
Level 4, Spark Central  
42-52 Willis Street  
Private Bag 39806  
Wellington Mail Centre  
Lower Hutt 5045  
New Zealand  
Toll Free: 0800 283 269

Auckland  
80 Queen Street  
Private Bag 92208  
Auckland 1142  
New Zealand  
Toll Free: 0800 283 269

Christchurch  
111 Cashel Street  
Christchurch 8011  
New Zealand  
Toll Free: 0800 854 854

National Australia Bank

Ivan Colhoun  
Global Head of Research  
+61 2 9237 1836

Alan Oster  
Group Chief Economist  
+61 3 8634 2927

Ray Attrill  
Head of FX Strategy  
+61 2 9237 1848

Skye Masters  
Head of Fixed Income Research  
+61 2 9295 1196

Wellington  
Foreign Exchange  
+800 642 222  
Fixed Income/Derivatives  
+800 283 269

New York  
Foreign Exchange  
+1 212 916 9631  
Fixed Income/Derivatives  
+1 212 916 9677

Sydney  
Foreign Exchange  
+61 2 9295 1100  
Fixed Income/Derivatives  
+61 2 9295 1166

Hong Kong  
Foreign Exchange  
+85 2 2526 5891  
Fixed Income/Derivatives  
+85 2 2526 5891

London  
Foreign Exchange  
+44 20 7796 3091  
Fixed Income/Derivatives  
+44 20 7796 4761

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.

www.bnz.co.nz/research