

18 September 2018



## Events Round-Up

NZ: Performance service index, Aug: 53.2 vs. 54.8 prev.

EC: Core CPI (y/y%), Aug (final): 1 vs. 1 exp.

US Empire manufacturing, Sep: 19 vs. 23 exp.

## Good Morning

The week has started off with a slightly risk-off tone, with Chinese and US equities falling (the latter led by the tech sector). So far, the market appears to have put more weight on the likely cancellation of US-China trade talks than the lower 10% tariff rate that the WSJ reported Trump had opted for. Trump said an announcement on Chinese tariffs would come later this morning, after the market close. The USD reversed its gains from Friday and is trading towards the lower end of its recent trading range.

US-China trade tensions continue to dominate the headlines. As we noted yesterday morning, the WSJ had reported that Trump would go ahead with the planned \$200b in tariffs, but at a lower 10% rate. And in response, the Chinese would reportedly decline US Treasury Secretary Mnuchin's invitation for fresh trade. The market appears to have put more weight on the latter, as reflected in a further decline in Chinese equities yesterday (CSI300 -1.2%) alongside US equities overnight (S&P500 -0.4%, NASDAQ -1%). The US equity market reaction to trade war headlines continues to be relatively muted.

China's foreign ministry said yesterday it would take "*necessary steps*" if the US did go ahead with its planned tariffs. As Trump's proposed \$200b tariffs exceeds the sum of US imports to China, meaning China cannot respond like-for-like, the WSJ reported that China was mulling "export restraints", effectively restricting the sales of materials and other parts to US supply chains.

We now await confirmation of the tariffs later this morning, including the exact amount targeted, with Trump saying he would make an announcement after the US market close today. According to Bloomberg, the total tariff amount might be lowered to \$180b if some products are excluded, including some Apple products, perhaps a sign (alongside the decision to go with the lower 10% rate) that Trump is sensitive to a consumer backlash ahead of the November mid-term elections.

The USD is weaker against all the G10 currencies on the

day, reversing the moves seen on Friday. The DXY is 0.4% lower to 94.5, near the bottom of the recent 94 – 97 trading range. Against a backdrop of USD weakness, the NZD has risen to 0.6580, about 0.5% stronger than Friday night's close.

The GBP has outperformed on the day, and is up 0.7% against the USD to its highest level since the start of August, at 1.3160. News flow around Brexit continues to be incrementally positive with the Times reporting yesterday that the EU was prepared to accept a frictionless Irish border post Brexit which increases the probability of a withdrawal agreement deal by the end of the year. Theresa May attends an EU leader summit in Salzburg on Thursday, with Brexit on the agenda. The NZD/GBP has drifted slightly below 0.5, its lowest level since mid-2016 amidst the more positive vibe to Brexit negotiations.

In rates markets, the US 10 year Treasury yield broke above 3% last night for the first time since the start of August, although it has since reversed back to sit right on 3% (unchanged on the day). There is little US economic data that is likely to move the market this week. The Empire manufacturing survey, the first of the regional Fed surveys to report on the month, was weaker than expected in September, and points to downside risks to next month's ISM survey. The new orders and employment components held at healthy levels however. The next regional Fed survey to be released is the Philly Fed survey on Thursday.

Yesterday, NZ rates moved higher, and the curve steeper, in sympathy with the Friday night move in Treasuries. The 10 year swap rate was 3bps higher, while the 2 year swap rate was 0.75bps higher. Yesterday, the PSI fell to 53.2, bringing the three month moving average down to 53.6. The current level of the PSI is now well below last year's average, and taken in conjunction with the subdued readings of the PMI point to some downside risks to NZ growth ahead. More immediately, the market is focused on Q2 GDP which is released on Thursday, where we are looking for a 0.6% rise, below the 0.8% Bloomberg consensus, but above the RBNZ's 0.5% RBNZ forecast.

The Global Dairy Trade auction is tonight, and we expect it to show another fall, perhaps in the order of 2%, which would extend the recent slide and fit with our view that the terms of trade is set to ease from a very high level.

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Coming Up

|    | Period                              | Cons. | Prev. | NZT   |
|----|-------------------------------------|-------|-------|-------|
| AU | RBA Sept. Meeting Minutes           |       |       | 13:30 |
| NZ | Dairy Auction Avg. Winning Price MT |       | 2980  | 09/19 |
| NZ | Dairy Auction Whole Milk Powder MT  |       | 2821  | 09/19 |

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                             | 0.6579 | +0.5  | 0.6552      | 0.6590 | CHF                   | 0.9619   | -0.7                |                     | S&P 500  | 2,893          | -0.5    | 15.7  | Oil (Brent)               | 77.87  | -0.3  |
| AUD                             | 0.7179 | +0.4  | 0.7152      | 0.7196 | SEK                   | 8.912    | -1.5                |                     | Dow      | 26,086         | -0.3    | 17.1  | Oil (WTI)                 | 68.69  | -0.4  |
| EUR                             | 1.1685 | +0.5  | 1.1618      | 1.1698 | NOK                   | 8.170    | -1.1                |                     | Nasdaq   | 7,920          | -1.1    | 22.8  | Gold                      | 1200.9 | +0.4  |
| GBP                             | 1.3161 | +0.7  | 1.3073      | 1.3165 | HKD                   | 7.844    | -0.0                |                     | Stoxx 50 | 3,346          | +0.0    | -4.8  | HRC steel                 | 837.0  | +0.5  |
| JPY                             | 111.81 | -0.2  | 111.85      | 112.11 | CNY                   | 6.857    | -0.2                |                     | FTSE     | 7,302          | -0.0    | 1.2   | CRB                       | 189.6  | -0.4  |
| CAD                             | 1.3025 | -0.1  |             |        | SGD                   | 1.372    | -0.2                |                     | DAX      | 12,096         | -0.2    | -3.4  | Wheat Chic.               | 525.3  | -0.8  |
| NZD/AUD                         | 0.9164 | +0.2  |             |        | IDR                   | 14,880   | +0.5                |                     | CAC 40   | 5,349          | -0.1    | 2.6   | Sugar                     | 10.63  | -4.2  |
| NZD/EUR                         | 0.5630 | -0.0  |             |        | THB                   | 32.60    | -0.3                |                     | Nikkei   | 23,095         | +1.2    | 16.0  | Cotton                    | 81.51  | +0.5  |
| NZD/GBP                         | 0.4999 | -0.2  |             |        | KRW                   | 1,127    | +0.9                |                     | Shanghai | 2,652          | -1.1    | -21.1 | Coffee                    | 97.3   | -2.5  |
| NZD/JPY                         | 73.56  | -0.2  |             |        | TWD                   | 30.80    | +0.2                |                     | ASX 200  | 6,185          | +0.3    | 8.1   | WM powder                 | 2675.0 | -0.4  |
| NZD/CAD                         | 0.8569 | +0.3  |             |        | PHP                   | 54.18    | +0.4                |                     | NZX 50   | 9,272          | +0.0    | 19.5  | <b>Australian Futures</b> |        |       |
| NZ TWI                          | 71.69  | -0.0  |             |        |                       |          |                     |                     |          |                |         |       | 3 year bond               | 97.925 | -0.02 |
|                                 |        |       |             |        |                       |          |                     |                     |          |                |         |       | 10 year bond              | 97.35  | -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                             | 2.00   | 2.34  | 2.95        | 3.06   | USD                   | 3.00     | 0.00                | NZGB 6 05/15/21     | 1.69     | 0.02           | 1 year  | 1.93  | 0.00                      |        |       |
| AUD                             | 1.50   | 1.92  | 2.04        | 2.82   | AUD                   | 2.62     | 0.02                | NZGB 5 1/2 04/15/23 | 1.91     | 0.02           | 2 year  | 1.99  | 0.01                      |        |       |
| NZD                             | 1.75   | 1.89  | 2.00        | 2.85   | NZD                   | 2.40     | 0.03                | NZGB 2 3/4 04/15/25 | 2.18     | 0.02           | 5 year  | 2.33  | 0.02                      |        |       |
| EUR                             | 0.00   | 0.06  | -0.14       | 0.96   | GER                   | 0.46     | 0.01                | NZGB 4 1/2 04/15/27 | 2.40     | 0.03           | 7 year  | 2.58  | 0.02                      |        |       |
| GBP                             | 0.75   | 0.80  | 1.13        | 1.63   | GBP                   | 1.54     | 0.01                | NZGB 3 04/20/29     | 2.57     | 0.03           | 10 year | 2.85  | 0.03                      |        |       |
| JPY                             | -0.06  | -0.04 | 0.06        | 0.34   | JPY                   | 0.12     | 0.00                | NZGB 3 1/2 04/14/33 | 2.76     | 0.03           | 15 year | 3.11  | 0.03                      |        |       |
| CAD                             | 1.50   | 1.17  | 2.46        | 2.73   | CAD                   | 2.34     | -0.00               | NZGB 2 3/4 04/15/37 | 2.91     | 0.03           |         |       |                           |        |       |

\* 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 07:14

Source: Bloomberg

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