

2 November 2018



## Events Round-Up

AU: Trade balance (A\$m), Sep: 3017 vs. 1700 exp.

CH: Caixin PMI manufacturing, Oct: 50.1 vs. 50 exp.

UK: Manufacturing PMI, Oct: 51.1 vs. 53 exp.

UK: Bank of England base rate, Nov: 0.75 vs. 0.75 exp.

US: ISM manufacturing, Oct: 57.7 vs. 59 exp.

## Good Morning

After making fresh highs yesterday, the USD has moved sharply lower across the board over the past 24 hours. The NZD is the best performing currency in the G10, up more than 2%. Meanwhile, equities have moved higher again, helped by some more positive comments by President Trump on China.

Equity markets have started November strongly (S&P500 +0.9%, NASDAQ +1.6%), continuing on from the large increases yesterday. Equities and broader risk sentiment were boosted by an encouraging tweet from President Trump on China trade negotiations. Trump tweeted "*Just had a long and very good conversation with President Xi Jinping of China. We talked about many subjects, with a heavy emphasis on Trade. Those discussions are moving along nicely with meetings being scheduled at the G-20 in Argentina.*" White House economic advisor Larry Kudlow later told CNBC that "*nothing is set in stone right now*", on whether Trump would impose further tariffs on China. Despite the more positive comments overnight, expectations are low that China will make the concessions that Trump has been demanding, making it likely that the US ultimately imposes further tariffs on China. Equities were also supported by better than expected corporate earnings results (although these didn't appear to provide much support to the equity market in October). Apple releases its results after the bell today.

The USD appreciated strongly in October, with both the DXY and Bloomberg DXY reaching their highest levels since mid-2017, but it has started November on the back foot. Over the past 24 hours, the various USD indices have fallen around 0.7%, with the dollar down against both developed and emerging market currencies. There weren't any obvious triggers for the decline in the USD, although some more positive reports on Brexit have boosted the GBP and EUR and helped establish support levels in both currencies. The ISM survey showed a larger than expected decline in US manufacturing activity,

although the USD had already declined significantly by this point. We suspect market positioning likely played a major role in the move, given the (heavily shorted) NZD is the top performing currency over the past 24 hours, up more than 2% to 0.6655.

The Times reported yesterday that the UK and EU had come to a preliminary agreement to allow UK banks and financial services firms to access the EU market after Brexit, which caused the GBP to spike from 1.2770 to 1.2850. While UK and EU officials later played down the report, which EU chief negotiator Michel Barnier described as "*misleading*", the GBP maintained its earlier gains. The GBP was then given a further boost by the Bank of England's monetary policy meeting. The BoE's forecasts, which are based off the market yield curve and assume a "smooth Brexit", showed inflation above the BoE's 2% target through most of forecast period, implying the Bank foresees a somewhat faster pace of rate rises than priced-in by the market, assuming there is a successful conclusion to Brexit negotiations (a big "if"). Governor Carney noted that the economy was at full capacity and wage growth had been higher than expected. The GBP has pushed through 1.30 as we write, up almost 2% on the day. The move higher in the GBP has added support to the EUR, which has moved from just above 1.13 to 1.1420, a 1% rise on the day.

The backdrop of a weaker USD, stronger risk appetite and Trump's more positive comments on China have helped the NZD rise by more than 2% over the past 24 hours. The NZD started yesterday around 0.6520, but it has been an almost straight line move higher to 0.6655, its highest level since late September. Market positioning (squaring of NZD short positions by speculative investors) has probably contributed to the outsized move. The AUD is the second best performing currency over the past 24 hours, helped in part by a very strong Australian trade balance release yesterday.

On the economic data front, the ISM manufacturing survey fell by more than expected in October (57.7 vs. 59 exp.), led by declines in the new orders and production indices. The survey remains at very healthy levels overall, and consistent with still strong levels of US manufacturing activity, but there are signs that the pace of activity is slowing. The export orders index fell to an almost 2 year low, consistent with some slowing in foreign demand. The 10 year US Treasury yield is at 3.14%, close to where it was this time yesterday. The market's focus is on non-farm payrolls tonight.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	ANZ Consumer Confidence	Oct		117.6	10:00
AU	Retail Sales (m/m%)	Sep	0.3	0.3	13:30
UK	UK Construction PMI	Oct	52	52.1	22:30
US	Trade Balance	Sep	-53.6	-53.2	01:30
US	Change in Nonfarm Payrolls	Oct	200	134	01:30
US	Unemployment Rate	Oct	3.7	3.7	01:30
US	Average Hourly Earnings (m/m%)	Oct	0.2	0.3	01:30
US	Average Hourly Earnings (y/y%)	Oct	3.1	2.8	01:30
CA	Unemployment Rate	Oct	5.9	5.9	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	0.6657	+2.1	0.6577	0.6659	CHF	1.0011	-0.8	S&P 500	2,737	+0.9	6.1	Oil (Brent)	72.95	-2.7
AUD	0.7206	+1.9	0.7122	0.7210	SEK	9.045	-1.3	Dow	25,332	+0.9	8.1	Oil (WTI)	63.60	-2.6
EUR	1.1419	+0.9	1.1338	1.1424	NOK	8.344	-1.1	Nasdaq	7,419	+1.6	10.5	Gold	1239.0	+1.9
GBP	1.3012	+1.9	1.2838	1.3015	HKD	7.837	-0.1	Stoxx 50	3,204	+0.2	-13.3	HRC steel	822.0	-0.5
JPY	112.67	-0.2	112.61	113.00	CNY	6.923	-0.7	FTSE	7,115	-0.2	-5.0	CRB	191.8	+0.4
CAD	1.3090	-0.5			SGD	1.376	-0.7	DAX	11,469	+0.2	-14.8	Wheat Chic.	523.5	+1.3
NZD/AUD	0.9238	+0.3			IDR	15,128	-0.5	CAC 40	5,086	+0.6	-7.8	Sugar	13.19	+0.0
NZD/EUR	0.5830	+1.2			THB	32.88	-0.7	Nikkei	21,688	-1.1	-3.8	Cotton	79.45	+3.4
NZD/GBP	0.5116	+0.2			KRW	1,138	-0.1	Shanghai	2,606	+0.1	-23.0	Coffee	117.8	+4.5
NZD/JPY	75.00	+1.9			TWD	30.89	-0.2	ASX 200	5,841	+0.2	-1.5	WM powder	2705.0	+0.2
NZD/CAD	0.8714	+1.6			PHP	53.21	-0.4	NZX 50	8,844	+1.0	9.4	<b>Australian Futures</b>		
NZ TWI	72.93	+1.3										3 year bond	97.915	-0.03
												10 year bond	97.36	-0.01
Interest Rates						NZ Government Bonds				NZ Swap Yields				
	Rates		Swap Yields		Benchmark 10 Yr Bonds									
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day		Last		Last				
USD	2.25	2.56	3.06	3.20	USD	3.13	-0.01	NZGB 6 05/15/21	1.80	0.02	1 year	1.97	0.02	
AUD	1.50	1.92	2.02	2.82	AUD	2.65	0.02	NZGB 5 1/2 04/15/23	1.97	0.03	2 year	2.03	0.01	
NZD	1.75	1.92	2.03	2.86	NZD	2.41	0.03	NZGB 2 3/4 04/15/25	2.21	0.03	5 year	2.36	0.02	
EUR	0.00	0.06	-0.12	0.97	GER	0.40	0.01	NZGB 4 1/2 04/15/27	2.41	0.03	7 year	2.60	0.03	
GBP	0.75	0.82	1.16	1.61	GBP	1.46	0.02	NZGB 3 04/20/29	2.56	0.03	10 year	2.86	0.03	
JPY	-0.07	-0.09	0.05	0.31	JPY	0.12	-0.00	NZGB 3 1/2 04/14/33	2.74	0.03	15 year	3.12	0.03	
CAD	1.75	1.17	2.68	2.89	CAD	2.47	-0.02	NZGB 2 3/4 04/15/37	2.88	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 06:46

Source: Bloomberg

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