

2 October 2018



Events Round-Up

JN: Tankan – large manufacturers index, Q3: 19 vs.22 exp.

GE: Manufacturing PMI, Sep (final): 53.7 vs. 53.7. exp.

EC: Manufacturing PMI, Sep (final): 53.2 vs. 53.3. exp.

UK: Manufacturing PMI, Sep: 53.8 vs. 52.5. exp.

EC: Unemployment rate, Aug: 8.1 vs. 8.1 exp.

GE: Retail sales, Aug: 1.6 vs. 1.6 exp.

US: Manufacturing PMI, Sep (final): 55.6 vs. 55.6 exp.

US: ISM manufacturing, Sep: 59.8 vs. 60.4 exp.

Good Morning

Risk appetite has been supported by news the US and Canada have come to a last minute deal on a revised NAFTA agreement. The S&P500 has moved close to a record high, although Treasury yields have been little moved. The NZD is again little changed, with all eyes on the QSBO released later this morning.

The revised NAFTA deal was agreed a short while before the deadline of midnight, 30th September (around 3pm yesterday NZT) after last minute negotiations between the US and Canada. The agreement, which will be called the US-Mexico-Canada agreement (or USMCA), will see increased access to the Canadian dairy sector for US farmers while the dispute resolution system will be retained (a key requirement for Canada). Canada and Mexico will also, reportedly, not be subject to auto tariffs on existing production levels, were President Trump to go down that route. Analysts view the revised agreement as similar to the existing NAFTA framework, with some tweaks, but the deal does remove a potential source of downside risk to growth in the region. The Canadian dollar and Mexican peso increased accordingly, with the former around 1% stronger on the day and the best performing G10 currency.

Afterwards, Trump claimed vindication for his hard-line approach to trade negotiations. In reference to USMCA, he claimed that *"without tariffs, we wouldn't be talking about a deal"*, later adding that India had reached out for a trade deal *"because of the power of tariffs."* The USMCA deal and the commencement of bilateral trade negotiations with the EU and, more recently, Japan supports the notion that Trump is attempting to settle trade differences with the US's traditional partners (what economic advisor Larry Kudlow described as "a trade

coalition of the willing") in order to focus on the dispute with China.

Risk appetite has been buoyed by the USMCA trade news, with the S&P500 rising around 0.5% to within touching distance of its record high set late last month. Another sharp rise in oil prices also helped support the energy sector, which led gains on the S&P500. Brent crude oil moved around 2% higher to \$84.40 per barrel, its highest level since 2014, amid concerns around global, and particularly Iranian, oil supply. Brent crude oil has increased by over 8% since OPEC declined to announce an increase in production at its meeting late last month. Meanwhile, concerns around bottlenecks in the Permian Basin have moderated expectations for a sharp increase in shale oil supply, with the Baker Hughes rig count falling last week (the rig count has been effectively flat since June).

In economic data, the US ISM manufacturing index fell to 59.8, slightly below expectations but still at levels that imply very strong growth in the US manufacturing sector. The new orders sub-index fell, but remained at healthy levels, while the production and employment indices increased slightly. US Treasury yields were little changed on the day, with focus likely to turn to a speech by Fed Chair Powell tonight (although we'd be surprised if he deviated from the September FOMC message in any material way).

Outside the CAD, movements in G10 currencies have been reasonably modest. The EUR has come under some modest downward pressure again due to concerns around Italy after the coalition announced a larger than expected fiscal deficit target late last week. The EUR is down 0.3% to around 1.1575, with its decline during the European afternoon session mirroring the rise in Italian yields over that time. On the day, the Italian 2 year government bond yield increased another 30bps to 1.3% despite attempts by Italian Finance Minister Tria to reassure the markets. EU politicians hit out at Italy's fiscal plans, with French Economy Minister saying *"I just want to be very clear, that there are rules. And rules are the same for every state."*

On Brexit, the GBP received an initial boost after reports that Theresa May was going to make a compromise offer to the EU over a back-stop for the Irish border to avert a no-deal scenario. According to the reports, the UK would allow goods being transported from the UK to Northern Ireland to be checked, which is what the EU has

requested, but in return the UK would want the whole of the UK, including Northern Ireland, to stay in the customs regime if the backstop is triggered. The move in the GBP from 1.3020 to above 1.31 was quickly reversed however. The Conservative party conference, attended by primarily Eurosceptic members, is predictably generating negative headlines, with Brexit secretary Raab saying the UK would rather leave without a deal than be "bullied" into a "one-sided" agreement.

The NZD is close to unchanged from this time yesterday, around 0.6620. Attention will turn to the release of the QSBO this morning given the RBNZ's focus on business confidence as the key downside risk facing the economy. We will be closely watching the own-activity indicators, including those related to employment and investment intentions, and the capacity indicators. Tonight sees another Global Dairy Trade auction, and we're looking for dairy prices to stabilise after their recent falls. NZ rates

saw little movement yesterday, with the market exceptionally quiet due to the Sydney public holiday.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	NZIER Business Opinion Survey				10:00
AU	RBA Cash Rate Target		1.5	1.5	17:30
UK	Markit/CIPS UK Construction PMI	Sep	52.9	52.9	21:30
NZ	Dairy Auction Avg. Winning Price MT			2934	10/03
NZ	Dairy Auction Whole Milk Powder MT			2768	10/03
NZ	QV House Prices YoY	Sep		4.8	05:00
US	Fed's Chairman Powell Speaks in Boston				05:00

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	0.6619	+0.0	0.6600	0.6620	CHF	0.9845	+0.3	S&P 500	2,929	+0.5	16.3	Oil (Brent)	84.35	+2.0
AUD	0.7227	+0.0	0.7207	0.7227	SEK	8.951	+0.7	Dow	26,679	+0.8	19.1	Oil (WTI)	74.90	+2.3
EUR	1.1574	-0.3	1.1564	1.1624	NOK	8.154	-0.0	Nasdaq	8,067	+0.3	24.2	Gold	1192.0	-0.4
GBP	1.3040	+0.1	1.3012	1.3116	HKD	7.826	-0.0	Stoxx 50	3,414	+0.4	-5.0	HRC steel	828.0	-0.2
JPY	113.98	+0.2	113.87	114.06	CNY	6.869	-0.3	FTSE	7,496	-0.2	1.7	CRB	197.6	+1.3
CAD	1.2791	-0.9			SGD	1.371	+0.3	DAX	12,339	+0.8	-3.8	Wheat Chic.	532.8	+1.0
NZD/AUD	0.9159	-0.1			IDR	14,911	+0.1	CAC 40	5,507	+0.2	3.3	Sugar	11.61	+3.4
NZD/EUR	0.5719	+0.2			THB	32.28	-0.2	Nikkei	24,246	+0.5	18.8	Cotton	76.58	+0.2
NZD/GBP	0.5076	-0.2			KRW	1,112	+0.2	Shanghai	2,821	+1.1	-15.8	Coffee	102.2	-0.4
NZD/JPY	75.44	+0.2			TWD	30.53	-0.0	ASX 200	6,172	-0.6	7.7	WM powder	2770.0	+0.0
NZD/CAD	0.8466	-1.0			PHP	54.16	+0.2	NZX 50	9,327	-0.3	17.6	Australian Futures		
NZ TWI	72.19	+0.1										3 year bond	97.91	0.00
												10 year bond	97.30	-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	2.40	2.99	3.13	USD	3.07	0.01	NZGB 6 05/15/21	1.77	-0.00	1 year	1.97	-0.01	
AUD	1.50	1.94	2.02	2.87	AUD	2.67	0.00	NZGB 5 1/2 04/15/23	1.98	-0.00	2 year	2.03	-0.01	
NZD	1.75	1.91	2.03	2.90	NZD	2.44	-0.00	NZGB 2 3/4 04/15/25	2.23	-0.00	5 year	2.39	-0.00	
EUR	0.00	0.06	-0.10	1.00	GER	0.47	0.00	NZGB 4 1/2 04/15/27	2.44	-0.00	7 year	2.63	-0.00	
GBP	0.75	0.80	1.16	1.66	GBP	1.59	0.02	NZGB 3 04/20/29	2.60	-0.00	10 year	2.90	-0.00	
JPY	-0.06	-0.05	0.06	0.36	JPY	0.14	0.01	NZGB 3 1/2 04/14/33	2.78	0.00	15 year	3.15	-0.00	
CAD	1.50	1.17	2.62	2.90	CAD	2.51	0.08	NZGB 2 3/4 04/15/37	2.90	-0.01				

* 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 06:48

Source: Bloomberg

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