

20 September 2018



Events Round-Up

NZ: Westpac consumer confid., Q3: 103.5 vs 108.6 prev.

NZ: Current a/c (ann. % of GDP), Q2:-3.3 vs. -2.9 exp.

JN: BoJ 10-yr yield target, Sep: 0.0 vs. 0.0 exp.

UK: CPI (y/y%), Aug: 2.7 vs. 2.4 exp.

UK: CPI Core (y/y%), Au: 2.1 vs. 1.8 exp.

US: Housing starts (k), Aug.: 1282 vs. 1238 exp.

US: Building permits (k), Aug.: 1229 vs. 1310 exp.

Good Morning

Against a backdrop of improved sentiment for emerging market currencies, the NZD and AUD continue to show signs of recovery, with both reaching their highest levels for the month. These moves come despite US rates tracking higher.

Emerging market currencies and the NZD and AUD continue to show signs of a relief rally following the passing of that key risk event, Trump's decision on tariffs on \$200bn of Chinese imports, announced earlier this week. The antipodean currencies, alongside CNY, got a boost yesterday afternoon after President Xi remarked that "One-way devaluation will do more harm than good to China's economy. China will by no means stimulate exports by devaluing the yuan." This suggested that China would not actively use its currency as a weapon in the US-China trade war but market forces could obviously still weaken CNY on any escalation of trade tensions, and China wouldn't necessarily prevent that from happening.

Further helping sentiment for the AUD, prompted by a freedom of information request, the RBA released an internal paper, with modelling showing the AUD TWI could rise in a widespread trade war as Australia would be less affected by other countries to global trade flows. Some back of the envelope modelling suggested a 20% across-the-board US import tariff could see the real exchange rate appreciate by 6%.

Overnight, the NZD reached a fresh high for the month of 0.6623 and has only peeled off a little from that level. The AUD got up to 0.7275 and has outperformed the NZD, taking NZD/AUD down close to 0.91. Both the NZD and AUD have been joined at the hip with emerging market currencies this year so it comes as no surprise that they are all moving up together now. There's a sense that these currencies got oversold on trade fears and with

Trump taking a more moderate position on tariffs, it has allowed a relief rally to take place.

These gains have occurred even against a backdrop of higher US rates. The US Treasuries curve continues to push higher, with the 10-year rate reaching 3.09% overnight, a four-month high. This is being driven by increased Fed rate hike expectations. Market pricing for Fed rate hikes next year has ramped up over recent days so that two full hikes are now priced through 2019 in addition to high chance of two further hikes priced for the remainder of this year. This has moved the market closer to the Fed's implied median three rate hike projection for 2019.

That higher US rates are not driving the USD higher might indicate that the USD is seen to be over-bought, reflected in heavy long positions that have built up over recent months. Overnight currency movements across the majors have been modest, although there was some volatility in GBP. GBP punched higher, up through 1.32, after UK inflation data came in stronger than expected, adding to the chance of a BoE rate hike by May next year. GBP then unwound all its gain after the Times reported that UK PM May is said to reject Barnier's improved Irish Brexit offer. Later, an official from PM May's office confirmed that the UK can't accept any Brexit offer from the EU that treats Northern Ireland as a separate customs territory.

Time is ticking down to get Canada on board with a new NAFTA deal before the critical end-September deadline and sources suggest that a deal is unlikely to be reached this week. Sticking points include the dairy sector and dispute resolutions and sources say that Canadian officials are warning that they're prepared to see the next deadline pass if they don't get an agreement they can live with.

The BoJ made no changes to its super-easy monetary policy stance and its announcement had little impact on the market. In other news, North Korean President Kim agreed to dismantle a key missile test site and would shut its main nuclear production site if the US takes reciprocal actions. These moves are seen to be only small steps towards de-nuclearisation and we now await President Trump's response. It remains to be seen whether North Korean's small steps are enough for the US to agree to a peace declaration.

NZ rates were higher across the curve yesterday in response to the sharp rise in US Treasury rates in the

previous overnight session, with the government curve up around 4bps and the swaps curve up around 2bps. Q2 GDP data today is the key focus. Our 0.6% q/q estimate is below the consensus of 0.8%, with some special factors dragging the result lower. The message is expected to be that the economy is doing fine, against the grain of the recent plunge in business confidence.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	GDP (q/q%)	Q2	0.8	0.5	10:45
NZ	GDP (y/y%)	Q2	2.5	2.7	10:45
NZ	NZ to sell 150m 2037 bonds				14:05
UK	Retail sales ex auto fuel (m/m%)	Aug	-0.2	0.9	20:30
US	Phil. Fed business outlook	Sep	18.0	11.9	00:30
EC	Consumer confidence	Sep	-2.0	-1.9	02:00
US	Existing home sales (m)	Aug	5.37	5.34	02:00

Source: Bloomberg, BNZ.

Foreign Exchange					Equities				Commodities**				
Indicative overnight ranges (*)				Other FX		Major Indices			Price				
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day		
NZD	0.6618	+0.5	0.6596	0.6623	CHF	0.9671	+0.2		Oil (Brent)	79.31	+0.4		
AUD	0.7266	+0.7	0.7237	0.7275	SEK	8.880	-0.4		Oil (WTI)	70.85	+1.9		
EUR	1.1675	+0.1	1.1650	1.1715	NOK	8.157	-0.1		Gold	1204.2	+0.5		
GBP	1.3146	-0.0	1.3099	1.3215	HKD	7.845	+0.0		HRC steel	861.0	+0.1		
JPY	112.26	-0.1	112.16	112.45	CNY	6.848	-0.2		CRB	191.4	+0.6		
CAD	1.2918	-0.4			SGD	1.370	-0.1		Wheat Chic.	540.8	+2.1		
NZD/AUD	0.9108	-0.2			IDR	14,875	+0.1		Sugar	10.76	+2.3		
NZD/EUR	0.5669	+0.5			THB	32.39	-0.5		Cotton	80.07	+1.2		
NZD/GBP	0.5034	+0.5			KRW	1,121	-0.2		Coffee	96.7	+0.9		
NZD/JPY	74.29	+0.5			TWD	30.78	-0.1		WM powder	2745.0	+2.4		
NZD/CAD	0.8549	+0.1			PHP	54.05	-0.1		Australian Futures				
NZ TWI	71.86	+0.3							3 year bond	97.805	-0.07		
									10 year bond	97.25	-0.04		
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			
USD	2.00	2.34	2.97	3.13	USD	3.07	0.02	NZGB 6 05/15/21	1.75	0.03	1 year	1.95	0.00
AUD	1.50	1.92	2.09	2.91	AUD	2.71	0.05	NZGB 5 1/2 04/15/23	1.97	0.03	2 year	2.00	0.00
NZD	1.75	1.89	2.01	2.91	NZD	2.46	0.04	NZGB 2 3/4 04/15/25	2.24	0.04	5 year	2.37	0.02
EUR	0.00	0.06	-0.13	0.98	GER	0.49	0.01	NZGB 4 1/2 04/15/27	2.46	0.04	7 year	2.62	0.02
GBP	0.75	0.80	1.16	1.68	GBP	1.61	0.04	NZGB 3 04/20/29	2.64	0.04	10 year	2.89	0.02
JPY	-0.06	-0.04	0.06	0.35	JPY	0.12	0.01	NZGB 3 1/2 04/14/33	2.83	0.04	15 year	3.15	0.02
CAD	1.50	1.17	2.49	2.79	CAD	2.40	0.02	NZGB 2 3/4 04/15/37	2.98	0.04			

* 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 06:56

Source: Bloomberg

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