

21 November 2018



## Events Round-Up

NZ: GDT dairy auction price index: -3.5%

US: Housing starts (k), Oct: 1228k vs. 1228k exp.

US: Building permits (k), Oct: -0.6 vs. -0.8 exp.

## Good Morning

Equities lurch lower again, denting risk appetite. The US dollar has pushed higher across the board, arresting its slide over the past week. Meanwhile, the plunge in oil prices continues. Little change in yields.

Equity markets are deeply in the red again, continuing their trend retreat from September's highs. The S&P500 is down around 1.4%, following similar sized losses in Europe. The S&P is approaching October's lows again and is more than 9% below September's peak. Information technology and financials lead the decline overnight.

Worries around the outlook for economic growth as trade tensions persist, capacity pressures bite, costs rise and the prospect of fading US fiscal stimulus has soured equity market sentiment. Positive comments from White House economic advisor Larry Kudlow saying 'Trump has optimistic view on US-China trade' amid 'very detailed communications' couldn't lift the mood overnight.

The economic influence of higher US interest rates are playing their part as housing market indicators retreat from recent highs. The 1.5% lift in October US housing starts overnight may just reflect a post-hurricane rebuild so could prove short lived. The trend in permits has softened, although the 0.6% decline overnight marginally beat expectations. Sure, housing indicators are still at generally solid levels, it is more the direction of travel that is disconcerting. It is the same for economic growth. Atlanta Fed's GDP model now sees US Q4 GDP at 2.5%, slower than Q3's 3.5% and Q2's 4.2%.

The VIX Index spiked toward 24 at one point overnight, reflecting the deterioration in risk sentiment. The US dollar is a touch stronger across the board, drawing on its safe haven qualities in times of turbulence. The DXY US dollar index is up nearly 0.6%, arresting its slide over the past week. EUR is down 0.8%, falling back below 1.1400.

Oil prices continue to plunge. Brent crude is down nearly 6% overnight, to be now down a cool 27% from October's peak as oversupply worries dominate amid signs of cooling demand. The Trump administration is moving to expand the territory for oil exploration in Alaska's National

Petroleum Reserve.

No surprise then to see the bottom of the currency leader board crammed with commodity currencies. NOK was the worst performer on the day, down 1.2%. CAD and AUD were also among the weakest down 0.8% and 0.9% respectively.

In this context, the NZD has held up better than most only leaking 0.4% lower. This was despite a disappointing GDT dairy auction where prices fell 3.5%, against some hope that prices may stabilise. The late mail yesterday that NZ milk production continued its very strong run through October likely weighed on prices. Production was up 6.5% y/y in the peak month of the season. Good for GDP calculations, but a downward influence on prices. Combined with a resolute NZD, it makes Fonterra's milk price forecast more difficult to achieve.

Sitting around 0.6840 before the auction, the NZD dipped a bit afterwards before extending down toward 0.6800 as oil prices came under pressure. NZD opens this morning close to its overnight lows around 0.6810.

NZD/AUD has pushed back above 0.9400, as lower oil prices weighed more on AUD than NZD. There was no surprise from yesterday's RBZ minutes. The RBA continues to expect that the next move in rates is up, rather than down; but no near term adjustment is warranted. The Bank notes it's been surprised on the upside by most components of GDP and progress on the unemployment rate, but wages and inflation have been broadly in line with expectations.

In Brexit news, BoE Governor Carney offered support to PM May's plan in his first public comments on the deal. Meanwhile, the DUP suggested the deal won't pass through parliament. GBP is down 0.5% at just over 1.2800.

US interest rates traded a narrow range. US 10 year Treasury yields dipped below 3.04% as oil prices fell, but soon recovered some ground. Yields currently sit around 3.05%, down 1bp on the day, a limited move in the context of the ongoing hefty declines in oil prices.

Local rates were marginally higher yesterday, with the swap and bond curve both a touch steeper. NZ 2 year swap rates closed unchanged at 2.165%, with 5 year up nearly 2bps to just under 2.56%, and 10 year closing nearly 3bps higher at just over 3.02%. There is nothing on the local calendar today to cause disruption.

There is limited data due over the coming 24 hours. US

durable goods will give a sense of business investment direction in October, while existing home sales is expected to see a mild improvement from the previous month.

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		Period	Cons.	Prev.	NZT
US	Durable goods orders (m/m%)	Oct	-2.5	0.7	02:30
US	Durables ex transport.	Oct	0.4	0.0	02:30
US	Existing home sales (m)	Oct	5.20	5.15	04:00

Source: Bloomberg, BNZ.

### Coming Up

Foreign Exchange						Equities				Commodities**				
Indicative overnight ranges (*)					Other FX		Major Indices				Price			
	Last	% Day	Low	High		Last	% Day			Last	Net Day			
NZD	0.6810	-0.4	0.6805	0.6869	CHF	0.9955	+0.2	S&P 500	2,653	-1.4	2.7	Oil (Brent)	63.17	-5.9
AUD	0.7230	-0.9	0.7233	0.7298	SEK	9.086	+0.9	Dow	24,562	-1.8	4.8	Oil (WTI)	54.17	-5.6
EUR	1.1368	-0.8	1.1373	1.1472	NOK	8.576	+1.2	Nasdaq	6,937	-1.2	2.2	Gold	1222.5	-0.4
GBP	1.2784	-0.5	1.2793	1.2883	HKD	7.830	-0.0	Stoxx 50	3,116	-1.4	-12.5	HRC steel	795.0	+0.0
JPY	112.81	+0.2	112.31	112.74	CNY	6.945	+0.0	FTSE	6,948	-0.8	-6.0	CRB	184.0	-2.5
CAD	1.3274	+0.8			SGD	1.374	+0.2	DAX	11,066	-1.6	-15.3	Wheat Chic.	506.8	+0.2
NZD/AUD	0.9419	+0.5			IDR	14,588	-0.2	CAC 40	4,925	-2.1	-7.8	Sugar	12.46	-2.7
NZD/EUR	0.5990	+0.3			THB	32.98	+0.1	Nikkei	21,583	-1.1	-3.7	Cotton	75.38	-0.8
NZD/GBP	0.5327	+0.1			KRW	1,126	-0.2	Shanghai	2,646	-2.1	-22.4	Coffee	115.5	-1.2
NZD/JPY	76.82	-0.2			TWD	30.90	-0.0	ASX 200	5,672	-0.4	-4.9	WM powder	2770.0	+0.4
NZD/CAD	0.9040	+0.4			PHP	52.46	-0.1	NZX 50	8,720	-0.8	7.8	<b>Australian Futures</b>		
NZ TWI	74.67	-0.1										3 year bond	97.84	0.00
												10 year bond	97.30	-0.03
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		Last			
USD	2.25	2.65	2.99	3.12	USD	3.05	-0.01	NZGB 6 05/15/21	1.92	0.02	1 year	2.04	0.00	
AUD	1.50	1.94	2.08	2.88	AUD	2.69	0.03	NZGB 5 1/2 04/15/23	2.15	0.02	2 year	2.17	-0.00	
NZD	1.75	2.00	2.16	3.02	NZD	2.56	0.02	NZGB 2 3/4 04/15/25	2.39	0.02	5 year	2.56	0.02	
EUR	0.00	0.06	-0.13	0.92	GER	0.35	-0.02	NZGB 4 1/2 04/15/27	2.56	0.02	7 year	2.78	0.02	
GBP	0.75	0.89	1.14	1.56	GBP	1.38	0.01	NZGB 3 04/20/29	2.71	0.02	10 year	3.02	0.03	
JPY	-0.07	-0.10	0.04	0.28	JPY	0.10	0.01	NZGB 3 1/2 04/14/33	2.88	0.02	15 year	3.27	0.03	
CAD	1.75	1.17	2.57	2.79	CAD	2.35	-0.01	NZGB 2 3/4 04/15/37	3.02	0.02				

\* 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: NY close Sat morning

Source: Bloomberg

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