

21 September 2018



Events Round-Up

NZ: GDP (q/q%), Q2: 1.0 vs. 0.8 exp.

NZ: GDP (y/y%), Q2: 2.8 vs. 2.5 exp.

UK: Retail sales x auto fuel (m/m%), Aug: 0.3 vs. -0.2 exp.

US: Phil. Fed business outlook, Sep: 22.9 vs. 18.0 exp.

EC: Consumer confidence, Sep: -2.9 vs. -2.0 exp.

US: Existing home sales (m), Aug: 5.34 vs. 5.37 exp.

Good Morning

Positive risk sentiment sees JPY and USD under pressure, while the NZD has made further gains overnight, adding to the move after stronger than expected GDP figures. US Treasury rates have consolidated around recent highs.

Markets are still in a positive mood since Trump opted for a more moderate tariff impost on China earlier this week. With that risk event cleared, the rally enjoyed by risk assets continues. US equities have reached a fresh record, with the S&P500 up 0.8% and the USD remains under pressure. The recent rise in US rates across the curve has done nothing to support the USD and traders are still likely reducing their long-dollar positions that have been built up this year. The US 10-year rate had another look at 3.09% overnight, the same high as the previous session, but has peeled off to be up less than 1bp to 3.07%.

Key USD indices are down 0.4-0.6% for the day and are close to technical support levels, threatening to break lower. The flipside of a weak USD is a more positive dynamic for emerging market currencies, with JP Morgan's EM FX index up 0.8%, making it the seventh positive day out of the last eight days.

Supporting better sentiment for riskier currencies, in a speech earlier this week President Xi said that China would reduce tariffs and yesterday sources indicated that average tariff rates would be cut on imports from the majority of its trading partners as soon as next month. It will be interesting to see how US imports are dealt with as WTO rules for countries with a "most-favoured nation" status stipulate that any reduction in tariffs usually must be offered to all countries equally.

Supporting risk sentiment, overnight economic news was generally positive. Weekly US data showed unemployment claims falling to a 48-year low, suggesting an ever-tightening labour market, while the Bloomberg Consumer Comfort Index showed confidence rising to a

fresh 17-year high. The Philly Fed business confidence index came in stronger than expected, albeit still likely points to a weaker ISM index, while soft US existing home sales continues to paint a picture of a flat housing market against a backdrop of rising interest rates. UK retail sales data were stronger than expected with upward revisions.

As expected, Norway's central bank raised rates for the first time in seven years. The bank flagged it will raise rates again at the start of next year, but also unexpectedly lowered its longer term projections and this saw NOK underperform alongside the USD and JPY.

Higher risk appetite continues to act as a tailwind for the NZD, and it is trading close to its highs for the day near 0.6690. The first level of technical resistance kicks in around the 0.6725 mark, ahead of 0.6860. The discount to our short-term fair value estimate is closing, but there is still a gap to that model-based estimate of just under the 0.70 mark.

Apart from the stronger risk appetite backdrop, yesterday the NZD got a boost after stronger than expected Q2 GDP data. The figure came in at 1.0% q/q, the best quarter in two years, and as well as beating the market consensus of 0.8%, the upward surprise relative to the RBNZ's estimate of 0.5% was the greatest in more than five years. The data provided no evidence to support the notion that the economy has hit a pothole. Weak business surveys might well indicate where the balance of risk lies regarding the economy but have so far proven to be an unreliable steer on actual activity.

The strong data dampened market expectations for future OCR rate cuts, with OIS pricing for the August-2019 meeting up 3bps, to now suggest "just" a 25% chance of a rate cut by then. The 2-year swap rate ended the day up 3bps to 2.035%, while 5-10 year swap rates were up in the order of 4-4.5bps.

The strength of the NZD post the GDP release has been sustained, which sees the NZD up on all the key crosses, ranging from 0.2% against GBP and EUR to 1.3% on NZD/JPY. GBP has performed well despite negative headlines on Brexit overnight. The lead story on the FT is "EU ambushes May over Brexit plan". It looks like the EU and UK have reached an impasse at the Salzburg summit. EU leaders warned PM May that her economic plan for Brexit "will not work" and gave her four weeks to save the exit talks. French President Macron said that "no blind deal" will be done with the UK.

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Coming Up

| | | Period | Cons. | Prev. | NZT |
|----|--------------------------|--------|-------|-------|-------|
| NZ | Net migration | Aug | | 4720 | 10:45 |
| JN | CPI ex fresh food (y/y%) | Aug | 0.9 | 0.8 | 11:30 |
| GE | Markit manufacturing PMI | Sep | 55.7 | 55.9 | 19:30 |
| GE | Markit services PMI | Sep | 55.0 | 55.0 | 19:30 |
| EC | Markit manufacturing PMI | Sep | 54.5 | 54.6 | 20:00 |
| EC | Markit services PMI | Sep | 54.4 | 54.4 | 20:00 |
| CA | Retail sales (m/m%) | Jul | 0.3 | -0.2 | 00:30 |
| CA | CPI (y/y%) | Aug | 2.8 | 3.0 | 00:30 |
| US | Markit manufacturing PMI | Sep | 55.0 | 54.7 | 01:45 |
| US | Markit services PMI | Sep | 55.0 | 54.8 | 01:45 |

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 | 0.6688 | +1.1 | 0.6645 | 0.6688 | CHF | 0.9604 | -0.7 | S&P 500 | 2,932 | +0.8 | 16.9 | Oil (Brent) | 78.73 | -1.0 |
| AUD | 0.7289 | +0.4 | 0.7255 | 0.7289 | SEK | 8.782 | -1.0 | Dow | 26,658 | +0.9 | 18.9 | Oil (WTI) | 70.88 | -0.5 |
| EUR | 1.1772 | +0.8 | 1.1677 | 1.1777 | NOK | 8.152 | -0.0 | Nasdaq | 8,029 | +1.0 | 24.4 | Gold | 1206.4 | +0.1 |
| GBP | 1.3262 | +0.9 | 1.3143 | 1.3298 | HKD | 7.843 | -0.0 | Stoxx 50 | 3,403 | +1.0 | -3.5 | HRC steel | 859.0 | -0.2 |
| JPY | 112.47 | +0.2 | 112.04 | 112.58 | CNY | 6.847 | -0.0 | FTSE | 7,367 | +0.5 | 1.3 | CRB | 193.0 | +0.5 |
| CAD | 1.2914 | -0.1 | | | SGD | 1.366 | -0.3 | DAX | 12,326 | +0.9 | -1.9 | Wheat Chic. | 540.8 | +0.1 |
| NZD/AUD | 0.9175 | +0.7 | | | IDR | 14,849 | -0.2 | CAC 40 | 5,452 | +0.1 | 4.0 | Sugar | 10.80 | +0.4 |
| NZD/EUR | 0.5681 | +0.2 | | | THB | 32.35 | -0.2 | Nikkei | 23,675 | +0.0 | 16.4 | Cotton | 79.62 | -0.7 |
| NZD/GBP | 0.5043 | +0.2 | | | KRW | 1,121 | -0.0 | Shanghai | 2,729 | -0.1 | -18.7 | Coffee | 100.4 | +2.6 |
| NZD/JPY | 75.22 | +1.3 | | | TWD | 30.79 | +0.0 | ASX 200 | 6,170 | -0.3 | 9.1 | WM powder | 2700.0 | -1.6 |
| NZD/CAD | 0.8637 | +1.0 | | | PHP | 54.11 | +0.1 | NZX 50 | 9,361 | +0.2 | 20.1 | Australian Futures | | |
| NZ TWI | 72.47 | +0.8 | | | | | | | | | | 3 year bond | 97.845 | 0.03 |
| | | | | | | | | | | | | 10 year bond | 97.28 | 0.03 |
| 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 | 2.35 | 2.99 | 3.13 | USD | 3.07 | 0.01 | NZGB 6 05/15/21 | 1.77 | 0.02 | | 1 year | 1.96 | 0.01 |
| AUD | 1.50 | 1.92 | 2.07 | 2.89 | AUD | 2.72 | 0.00 | NZGB 5 1/2 04/15/23 | 1.99 | 0.02 | | 2 year | 2.04 | 0.03 |
| NZD | 1.75 | 1.89 | 2.04 | 2.94 | NZD | 2.49 | 0.02 | NZGB 2 3/4 04/15/25 | 2.27 | 0.02 | | 5 year | 2.42 | 0.05 |
| EUR | 0.00 | 0.06 | -0.13 | 0.97 | GER | 0.47 | -0.02 | NZGB 4 1/2 04/15/27 | 2.49 | 0.02 | | 7 year | 2.66 | 0.04 |
| GBP | 0.75 | 0.80 | 1.16 | 1.66 | GBP | 1.59 | -0.02 | NZGB 3 04/20/29 | 2.66 | 0.02 | | 10 year | 2.94 | 0.04 |
| JPY | -0.06 | -0.04 | 0.06 | 0.34 | JPY | 0.12 | -0.00 | NZGB 3 1/2 04/14/33 | 2.85 | 0.02 | | 15 year | 3.19 | 0.04 |
| CAD | 1.50 | 1.17 | 2.50 | 2.81 | CAD | 2.42 | 0.00 | NZGB 2 3/4 04/15/37 | 2.99 | 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: NZT 06:42

Source: Bloomberg

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