

23 October 2018



## Events Round-Up

(From Friday):

CH: GDP (y/y%), Q3: 6.5 vs. 6.6 exp.

CH: Retail sales (y/y%), Sep: 9.2 vs. 9.0 exp.

CH: Industrial production (y/y%), Sep: 5.8 vs. 6.0 exp.

CH: Fixed assets investment (y/y%), Sep: 5.4 vs. 5.3 exp.

CA: CPI (y/y%), Sep: 2.2 vs. 2.7 exp.

## Good Morning

The new week has begun with weaker risk sentiment prevailing, with commodity currencies underperforming and US equities in negative territory.

Locals coming back from the long weekend will see the NZD around 0.6555, only down 5-10 pips or so from the level at Friday's NZ close, but down about 0.6% from the NY close on Saturday morning. The NZD had run up through 0.66 over the weekend, supported by a more positive vibe around China as noted below. After meeting resistance around 0.6610 it has been downhill since then, with a broadly based USD dynamic currently in force.

A number of top Chinese officials offered some confidence-boosting soundbites and policy measures ahead of Friday's GDP release, which happened to show growth slipping to 6.5%, the lowest rate since the GFC. The comments included how they valued a "healthy stock market", the study of some potential measures to ease companies' financial difficulties, and getting local government support to ease pressures caused by margin calls. This was followed by remarks in the weekend by President Xi who vowed to offer "unwavering" support for the private sector and the government then released a plan for personal income tax cuts beginning 2019. And yesterday, the PBoC kicked in with a number of different policy measures designed to ease funding strains of private companies. Chinese equities have surged on the back of these supportive comments and policies, with the CSI-300 index up 4.3% yesterday following the 3.0% rise on Friday.

The impact of all this on currency markets has been pretty modest. USD/CNH got down to 6.9250 late Friday, but is now testing 6.95 again, although the USD is stronger across the board and that has been the key driver overnight. There haven't been any key economic data releases overnight. While a risk-off mood currently prevails, USD/JPY is slightly higher at 112.75.

Part of apparent USD strength reflects a lack of appetite to invest in EUR and GBP. Talk of a potential leadership challenge to PM May has overhung GBP as Brexit negotiations have stalled, with the Irish border issue the main sticking point and internal debate over how long the post-Brexit transition period should be. The tally of Tories prepared to mount a leadership challenge is getting within a couple of votes of the threshold required. A change in leadership raises the possibility of a fresh election and the potential change to a Labour government with socialist tendencies, which would be highly GBP-negative. GBP is down 0.8% for the day at 1.2970.

EUR is struggling as the focus remains on Italy's budget woes, down 0.4% at 1.1470. Italy has opened up a dialogue with the EU to try to get its proposed Budget accepted, but is sticking with its forecast 2.4% of GDP budget deficit target for 2019, although this is now framed as a ceiling. Sources indicate that the EU is likely to issue an unprecedented "negative opinion", which would give Italy three weeks to prepare a revised budget. On Friday, Moody's downgraded Italy by a notch but maintained an investment grade rating and removed the threat of a downgrade to "junk".

The AUD is back below 0.71 on USD strength, while political developments haven't helped. The Australian government lost Saturday's by-election and therefore its one-seat majority. The winning Independent candidate has pledged confidence and supply. Nevertheless, the size of the win – a swing of some 17% against the government in a very safe seat – has boosted the odds of the Opposition Labour party winning at next year's election. NZD/AUD is trading at 0.9250, up from 0.9185 at Friday's NZ close.

The S&P500 has spent most of the overnight session in negative territory and is currently down 0.2%. Since falling steeply through the 200-day moving average two weeks ago, it has spent some time hovering around that mark, so we're not out of the woods yet. US Treasury yields remain tightly range-bound, trading within 3.16-3.21% over the past couple of sessions and unchanged overnight at 3.19%.

The economic calendar is pretty light for the week ahead, with US Q3 GDP figures at the end of the week the highlight. The Bank of Canada is widely expected to hike rates again mid-week, despite the much weaker than expected CPI data on Friday night, although core measures remained close to 2%. There is little on the calendar scheduled for the next 24 hours.

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Coming Up

		Period	Cons.	Prev.	NZT
EC	Consumer Confidence	Oct	-3	-2.9	03:00
UK	Carney Speaks at a Conference in Toronto				04:20

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	0.6555	-0.6	0.6544	0.6599	CHF	0.9963	+0.0		Oil (Brent)	79.76	+0.0					
AUD	0.7085	-0.5	0.7076	0.7125	SEK	8.995	+0.0		Oil (WTI)	68.95	-0.2					
EUR	1.1472	-0.4	1.1456	1.1550	NOK	8.250	+0.4		Gold	1221.2	-0.3					
GBP	1.2976	-0.8	1.2957	1.3090	HKD	7.840	-0.0		HRC steel	831.0	+0.6					
JPY	112.78	+0.2	112.58	112.89	CNY	6.948	+0.3		CRB	197.1	-0.1					
CAD	1.3107	+0.0			SGD	1.380	+0.2		Wheat Chic.	528.0	-1.2					
NZD/AUD	0.9252	-0.1			IDR	15,187	+0.0		Sugar	13.82	-0.5					
NZD/EUR	0.5714	-0.2			THB	32.81	+0.7		Cotton	79.91	+2.6					
NZD/GBP	0.5052	+0.2			KRW	1,129	-0.3		Coffee	117.7	-3.6					
NZD/JPY	73.93	-0.4			TWD	30.90	-0.1		WM powder	2680.0	+1.9					
NZD/CAD	0.8592	-0.6			PHP	53.77	+0.2		<b>Australian Futures</b>							
NZ TWI	72.15	+0.6							3 year bond	97.89	0.02					
									10 year bond	97.29	0.01					
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	% Day	% Year		Last	Net Day		
USD	2.25	2.48	3.10	3.25	USD	3.19	-0.00	NZGB 6 05/15/21	1.82	-0.01		1 year	1.96	0.01		
AUD	1.50	1.93	2.06	2.88	AUD	2.70	0.02	NZGB 5 1/2 04/15/23	2.02	-0.01		2 year	2.03	-0.01		
NZD	1.75	1.90	2.04	2.91	NZD	2.49	-0.03	NZGB 2 3/4 04/15/25	2.28	-0.02		5 year	2.39	-0.02		
EUR	0.00	0.06	-0.11	1.00	GER	0.45	-0.01	NZGB 4 1/2 04/15/27	2.49	-0.03		7 year	2.63	-0.02		
GBP	0.75	0.80	1.12	1.65	GBP	1.53	-0.05	NZGB 3 04/20/29	2.65	-0.03		10 year	2.90	-0.03		
JPY	-0.07	-0.09	0.06	0.36	JPY	0.15	0.01	NZGB 3 1/2 04/14/33	2.84	-0.03		15 year	3.15	-0.03		
CAD	1.50	1.17	2.63	2.90	CAD	2.49	-0.01	NZGB 2 3/4 04/15/37	2.97	-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 06:46

Source: Bloomberg

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