

24 August 2018



Events Round-Up

GE: Markit manufacturing PMI, Aug: 56.1 vs. 56.5 exp.

GE: Markit services PMI, Aug: 55.2 vs. 54.3 exp.

EC: Markit manufacturing PMI, Aug: 54.6 vs. 55.2 exp.

EC: Markit services PMI, Aug: 54.4 vs. 54.4 exp.

US: Markit manufacturing PMI, Aug: 54.5 vs. 55.0 exp.

US: Markit services PMI, Aug: 55.2 vs. 55.8 exp.

US: New home sales (k), Jul: 627 vs. 645 exp.

EC: Consumer confidence, Aug: -1.9 vs. -0.7 exp.

Good Morning

The USD is broadly stronger, recovering some of its losses seen earlier this week. The AUD is the weakest of the majors, with political risk overhanging the currency. Equity markets are flat and UST yields are little changed.

The USD is up 0.5-0.7% for the day on the various indices we monitor but it has still only made up some of the ground lost earlier this week. Newsflow has been fairly limited. The previously-announced 25% tariffs on \$16bn of additional Chinese imports into the US came into effect yesterday, with China retaliating immediately with the same quantum of tariffs on US imports. Low-level US-China talks continued for a second day in Washington but expectations are low for much progress and we might see some sort of joint statement by the end of the week. Sources have said that the Chinese delegation has shown no signs of bringing any significant compromises to the meeting. This sets the scene for tariffs on another \$200bn of Chinese imports in September, sometime after the period of public consultation ends, which would represent an intensification of economic damage that tariffs to date have already had.

Economic news overnight was on the soft side. Euro-area consumer confidence was weaker than expected, dropping to a 15-month low. Euro-area composite PMIs were flat, with weaker manufacturing activity offset by stronger services activity. US new home sales dropped to a 9-month low and the less widely-followed Markit US PMIs showed more slippage than expected.

Against a backdrop of a stronger USD, the NZD slipped around 30pips to 0.6670 in local trading and has slipped just over 30pips in overnight trading to 0.6635. The AUD has been the weakest of the majors, down 1.4% from this time yesterday to below 0.7250. It seems the market

doesn't like the political uncertainty overhanging Australia, with PM Turnbull likely to face another leadership challenge this afternoon. Turnbull has said he would resign from Parliament if he lost the leadership, forcing a by-election in his electorate. While a safe-seat, a public revolt could see the ruling coalition lose its one-seat majority and an early federal election before the end of the year can't be ruled out. In addition to the messy political situation the unusually large AUD reaction to the political drama might also reflect deteriorating Australia-China relations. A China foreign ministry spokesman urged the Australian government to abandon "ideological biases" in response to the country banning Huawei and ZTE from working on its 5G network. NZD/AUD is up 0.5% for the day to 0.9160.

GBP has also been on the weak side and sits a little over 1.28. The UK published notes on the consequences of a no-deal Brexit, which documented the disruption to banking services, pension payments, higher prices and the step-up in red-tape that would be required regarding trade with the EU as "non-preferential, World Trade Organisation" terms would apply.

US rates have barely changed but enough to show further curve flattening, with the 2s10s slope down to a fresh low of 20.4bps at its nadir. The 2-yr Treasury rate is currently up over 1bp to 2.60% and the 10-year rate is flat at just under 2.82%. A number of FOMC members are watching the slope of the yield curve closely and they have said that it would influence their decision to progress with further tightening if the curve turned negative.

Kansas Fed President George said that Trump's criticism of the Fed won't influence the central bank's decisions. A known hawk, she expected two more hikes this year and thought the neutral rate was 3%, just over 100bps higher than the current Fed Funds rate. She suggested it was a difficult debate about how much to raise rates before pausing its upward march. We'll hear more from the Fed tonight when Chair Powell addresses the Jackson Hole conference.

NZ swap rates were little changed yesterday, while global forces saw a mild rally in the NZ government curve. Demand for NZ bonds remains strong, with a solid auction of 2025 bonds yesterday.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Trade balance (\$m)	Jul	-400	-113	10:45
JN	CPI ex fresh food (y/y%)	Jul	0.9	0.8	11:30
US	Durable goods orders (m/m%)	Jul	-1	0.8	00:30
US	Durables ex transportation	Jul	0.5	0.2	00:30
US	Powell discusses monetary policy at Jackson Hole				02:00

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	0.6636	-0.9	0.6634	0.6681	CHF	0.9863	+0.3	S&P 500	2,861	-0.0	17.0	Oil (Brent)	74.73	-0.1
AUD	0.7245	-1.4	0.7244	0.7302	SEK	9.146	+0.9	Dow	25,675	-0.2	17.7	Oil (WTI)	67.82	-0.1
EUR	1.1536	-0.5	1.1531	1.1591	NOK	8.388	+0.6	Nasdaq	7,898	+0.1	25.8	Gold	1187.7	-0.7
GBP	1.2813	-0.8	1.2805	1.2910	HKD	7.850	+0.0	Stoxx 50	3,419	-0.0	-0.6	HRC steel	901.0	+0.0
JPY	111.29	+0.7	110.75	111.29	CNY	6.878	+0.5	FTSE	7,563	-0.1	2.4	CRB	190.5	-0.3
CAD	1.3093	+0.7			SGD	1.374	+0.6	DAX	12,366	-0.2	1.6	Wheat Chic.	541.8	-0.6
NZD/AUD	0.9159	+0.5			IDR	14,638	+0.4	CAC 40	5,419	+0.1	5.9	Sugar	10.12	-0.6
NZD/EUR	0.5752	-0.4			THB	32.89	+0.6	Nikkei	22,411	+0.2	15.8	Cotton	81.73	-1.2
NZD/GBP	0.5179	-0.2			KRW	1,121	+0.2	Shanghai	2,725	+0.4	-16.7	Coffee	101.5	+0.6
NZD/JPY	73.85	-0.3			TWD	30.79	+0.2	ASX 200	6,244	-0.3	8.7	WM powder	2845.0	-0.2
NZD/CAD	0.8689	-0.2			PHP	53.47	-0.0	NZX 50	9,140	-0.2	16.2	Australian Futures		
NZ TWI	72.31	-0.3										3 year bond	97.975	0.00
												10 year bond	97.47	0.02
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	2.00	2.31	2.79	2.89	USD	2.82	0.00	NZGB 6 05/15/21	1.74	-0.02	1 year	1.96	-0.00	
AUD	1.50	1.96	2.01	2.72	AUD	2.53	-0.01	NZGB 5 1/2 04/15/23	1.95	-0.01	2 year	2.03	-0.00	
NZD	1.75	1.92	2.03	2.85	NZD	2.40	-0.02	NZGB 2 3/4 04/15/25	2.22	-0.02	5 year	2.37	-0.00	
EUR	0.00	0.06	-0.15	0.88	GER	0.34	-0.01	NZGB 4 1/2 04/15/27	2.40	-0.02	7 year	2.61	0.00	
GBP	0.75	0.81	1.09	1.53	GBP	1.27	-0.00	NZGB 3 04/20/29	2.56	-0.02	10 year	2.86	0.00	
JPY	-0.06	-0.03	0.05	0.32	JPY	0.10	0.00	NZGB 3 1/2 04/14/33	2.74	-0.02	15 year	3.12	0.00	
CAD	1.50	1.17	2.44	2.64	CAD	2.26	0.00	NZGB 2 3/4 04/15/37	2.89	-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 07:00

Source: Bloomberg

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