

24 October 2018



Events Round-Up

EC: Consumer confidence, Oct: -2.7 vs. -3.2 exp.

Good Morning

On a day with little news, global equities have slumped again and US Treasury yields have followed the move lower. Interestingly, currency market movements have been modest, with the risk off mood seeing JPY modestly bid while the NZD range trades.

It has been another bad day at the office for equity markets, beginning in the Asian session and spreading across Europe and the US. There hasn't actually been much news out there so the newswires are again making up a whole lot of stories to try to explain the move. But this feels like a risk-off move centred within equity markets because of high valuation concerns amidst a backdrop of a weaker global growth outlook. China's open-mouth operation at the end of last week, its plan to cut personal income taxes from 2019 and offer of incremental policy changes to help support the market worked for a couple of days, but yesterday saw a 2.7% reversal in the CSI300 index.

The newswires are blaming some weaker earnings results as an added negative force on the market – Renault and tech companies in Europe, and bellwether stocks Caterpillar and 3m in the US. While 3M cut its earnings forecast, Caterpillar's result wasn't bad at all, beating analyst estimates and reaffirming guidance. The company did say that increased tariffs cost it \$40m, but the full year impact will be at the lower end of previous guidance. The stock fell as much as 10% before paring its loss to 5%. We'd suggest its underperformance is more indicative of a rotation out of cyclical into defensive stocks than its earnings result per se.

US Treasury rates have followed equity markets, tracing the move lower in S&P 500 futures during the Asian trading session and the further equity market move during US trading hours. The 10-year rate traded as low as 3.11%, and has since risen to 3.14%, still down 6bps for the day. The fall in the S&P500 from its peak late-September, now some 7%, isn't likely large enough to impact the Fed's monetary policy outlook, but there has been some paring of rate hikes built into the curve over the past couple of weeks. About 69bps of rate hikes are priced into the Fed Funds curve through to the end of next year, down from 78bps as of two weeks ago.

In other news, the European Commission officially rejected Italy's budget proposal, as expected, and asked the country to revise and resubmit its plans within three weeks. This is the first time such demands have been made of a member state. Ahead of that decision, Italian Prime Minister Conte said that "There isn't any B plan" and while he suggested some tweaks were possible he could not accept any substantial change, "it will be difficult for me because I cannot accept that." The Italian-German 10-year bond spread blew out 14bps on that, with German bunds down 4bps to 0.41% and Italian BTPs up 10bps to 3.59%.

In currency markets, movements have been well contained despite the more significant moves in equities and bonds. JPY has outperformed as one would expect, but USD/JPY is only down 0.5% to 112.20. All other major currency moves have been within +/-0.2% from levels of this time yesterday.

The NZD has largely trade sideways in an approximate 0.6535-0.6570 range, regaining overnight some of the small losses seen during the NZ trading session to currently sit at 0.6560. We expect to see the NZD remain in a bit of a holding pattern this week. AUD has followed the same path, keeping NZD/AUD hovering around 0.9260.

GBP saw a spike up to 1.3040 after Irish broadcaster RTE reported, without stating its sources, that the EU is to offer UK PM May a UK-wide customs union as a way around the Irish backstop issue, to be negotiated beyond the withdrawal agreement as a separate treaty. GBP has since nudged back below 1.30. Italy's budget woes haven't had much impact on EUR, with the currency up slightly at 1.1480.

Finally, oil prices are down over 4%, with Brent crude slipping as low as \$76 a one point, now \$76.50. Saudi Arabia's energy minister said that OPEC and its allies are in "produce as much as you can mode". Saudi Arabia has been pumping 9-10 million barrels per day for years and doesn't rule out boosting that by as much as 2m.

Tonight sees the release of Markit PMI data across Europe and the US, with expectations of some broadly based slippage from September readings. The Bank of Canada is widely expected (90% priced) to hike rates for the fifth time this cycle by 25bps, taking its overnight rate to 1.75%.

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Coming Up

		Period	Cons.	Prev.	NZT
GE	Markit manufacturing PMI	Oct	53.4	53.7	20:30
GE	Markit services PMI	Oct	55.5	55.9	20:30
EC	Markit manufacturing PMI	Oct	53.0	53.2	21:00
EC	Markit services PMI	Oct	54.5	54.7	21:00
US	Markit manufacturing PMI	Oct	55.3	55.6	02:45
US	Markit services PMI	Oct	54.0	53.5	02:45
CA	Bank of Canada rate (%)	Oct	1.75	1.5	03:00
US	New home sales (k)	Sep	625	629	03:00

Source: Bloomberg, BNZ.

Foreign Exchange					Equities			Commodities**						
Indicative overnight ranges (*)				Other FX		Major Indices			Price					
	Last	% Day	Low	High	Last	% Day	Last	% Day	% Year	Last	Net Day			
NZD	0.6556	+0.0	0.6535	0.6569	CHF	0.9950	-0.2	2,717	-1.2	5.9	Oil (Brent)	76.16	-4.2	
AUD	0.7080	-0.0	0.7056	0.7090	SEK	9.030	+0.4	Dow	25,016	-1.1	7.5	Oil (WTI)	66.05	-4.5
EUR	1.1476	+0.1	1.1439	1.1493	NOK	8.295	+0.5	Nasdaq	7,398	-1.2	12.3	Gold	1231.0	+1.0
GBP	1.2993	+0.2	1.2937	1.3044	HKD	7.839	-0.0	Stoxx 50	3,141	-1.5	-13.0	HRC steel	829.0	-0.2
JPY	112.21	-0.5	111.96	112.60	CNY	6.938	-0.1	FTSE	6,955	-1.2	-7.6	CRB	194.6	-1.1
CAD	1.3101	+0.0			SGD	1.379	-0.1	DAX	11,274	-2.2	-13.3	Wheat Chic.	527.5	+0.6
NZD/AUD	0.9260	+0.0			IDR	15,192	+0.0	CAC 40	4,968	-3.0	-7.8	Sugar	13.83	-0.1
NZD/EUR	0.5713	-0.3			THB	32.86	+0.2	Nikkei	22,011	-2.7	0.9	Cotton	78.60	-1.5
NZD/GBP	0.5046	-0.1			KRW	1,137	+0.8	Shanghai	2,595	-2.3	-23.4	Coffee	120.8	+3.2
NZD/JPY	73.56	-0.9			TWD	30.98	+0.2	ASX 200	5,843	-1.0	-0.9	W/M powder	2680.0	+1.9
NZD/CAD	0.8589	-0.3			PHP	53.80	+0.1	NZX 50	8,673	-1.5	6.7	Australian Futures		
NZ TWI	72.14	-0.1										3 year bond	97.925	0.04
												10 year bond	97.34	0.05
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	Last	Last	Last			
USD	2.25	2.49	3.06	3.20	USD	3.14	-0.06	NZGB 6 05/15/21	1.82	-0.00	1 year	1.95	-0.01	
AUD	1.50	1.93	2.03	2.83	AUD	2.68	-0.03	NZGB 5 1/2 04/15/23	2.01	-0.01	2 year	2.03	-0.00	
NZD	1.75	1.89	2.02	2.89	NZD	2.48	-0.01	NZGB 2 3/4 04/15/25	2.27	-0.01	5 year	2.38	-0.01	
EUR	0.00	0.06	-0.11	0.98	GER	0.41	-0.04	NZGB 4 1/2 04/15/27	2.48	-0.01	7 year	2.62	-0.00	
GBP	0.75	0.80	1.11	1.61	GBP	1.47	-0.06	NZGB 3 04/20/29	2.64	-0.01	10 year	2.89	-0.00	
JPY	-0.07	-0.09	0.06	0.34	JPY	0.15	-0.00	NZGB 3 1/2 04/14/33	2.82	-0.02	15 year	3.15	-0.00	
CAD	1.50	1.17	2.60	2.84	CAD	2.43	-0.06	NZGB 2 3/4 04/15/37	2.96	-0.01				

* 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 07:01

Source: Bloomberg

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