

25 October 2018



## Events Round-Up

GE: Markit manufacturing PMI, Oct: 52.3 vs. 53.4 exp.

GE: Markit services PMI, Oct: 53.6 vs. 55.5 exp.

EC: Markit manufacturing PMI, Oct: 52.1 vs. 53.0 exp.

EC: Markit services PMI, Oct: 53.3 vs. 54.5 exp.

US: Markit manufacturing PMI, Oct: 55.9 vs. 55.3

US: Markit services PMI, Oct: 54.7 vs. 54.0 exp.

CA: Bank of Canada rate (%), Oct: 1.75 vs. 1.75 exp.

US: New home sales (k), Sep: 553 vs. 625 exp.

## Good Morning

US equities continue to fall, putting downward pressure on global rates. A hawkish Bank of Canada saw a stronger CAD, but otherwise the USD is generally stronger, seeing the NZD weaken a little.

The S&P500 is on track for its 13th down day out of the last 15 days and is currently down about 1.4% and 8% lower than its late-September peak. As usual we can point to a whole host of reasons why the market is falling. There's a clear asset allocation rotation going on behind the scenes, out of equities and into fixed income, and out of cyclicals into defensives, due to fears about the global growth outlook – US-China trade tensions not helping there – and against a backdrop of tighter global monetary policy. Some softer earnings reports aren't helping, cementing the view that we are past the peak in earnings growth.

The Bank of Canada hiked its policy rate by 25bps for a fifth time this cycle to 1.75% and offered a hawkish outlook – dropping previously language about a “gradual approach” and indicating that rates will need to “rise to a neutral stance to achieve the inflation target”. BoC officials Poloz and Wilkins indicated the need for “flexibility” with every meeting “live” and flexibility to hike either more quickly or slowly. It seems that the signing of a new trade deal with the US and Mexico has removed a clear downside risk to the economy while the Bank is unperturbed by recent financial market volatility, citing that “global financial conditions remain accommodative”. The market brought forward pricing of the next rate hike from March to January, with a 25% chance that it comes as soon as the next meeting in December.

Sweden's Riksbank's policy outlook was more in line with

expectations, with the Bank maintaining previous guidance that the first rate hike this cycle could come in either December or February.

On the economic front, US new home sales were much weaker than the market expected, falling to a 2-year low, alongside some downward revisions. The hurricanes can take some blame but so too can mortgages rates rising to a 7-year high. US Markit PMIs surprisingly rose, but these are considered second-tier compared to the more widely followed ISM indicators released at a later date. Eurozone PMIs were weak against the board, falling to 2-year lows, indicating much weaker growth momentum in the area.

The more hawkish Bank of Canada sees CAD at the top of the leaderboard, with USD/CAD down 0.6% to 1.30, while NZD/CAD is down more than 1% to 0.8480. The risk-off backdrop sees support for JPY, but its “flight to quality” attributes seem to be weaker than usual the last couple of sessions, with USD/JPY hovering around the 112.50 mark. Thus, the USD is well supported, even with that weaker home sales data and the pummeling being dealt to US equities.

Of note, even with the much weaker European PMIs, the Euro Stoxx 600 index fell by “only” 0.2%. That data had more impact on EUR, seeing it fall steadily after the release, now down 0.7% to 1.1385, with the next level of support at the August low around 1.1300. GBP is down 0.8% to 1.2880, with ongoing negative headlines on Brexit offering no support.

Against a backdrop of broad USD strength, the NZD is probing fresh lows for the week, down 0.5% to around 0.6520, while the AUD has performed a little better, down to 0.7065 and helping NZD/AUD nudge down to 0.9230. NZ trade data later this morning won't be flash, with a good chance of the annual deficit piercing the \$5b mark as import growth remains ahead of exports.

US Treasury yields have drifted lower, in line with weaker US equities. The 10-year rate is down 4bps at 3.12%, with a more modest 2bps fall for the 2-year rate. Germany's 10-year rate has slipped back below the 0.40% mark. Yesterday, NZ rates were 1-2bps lower across the curve, underperforming the US rally.

We aren't expecting many fireworks from the ECB meeting tonight. We are in the final months of the bank's quantitative easing policy. Rate hikes remain a distant

prospect and the Bank is unlikely to be drawn into changing guidance of unchanged rates “through the summer”, which makes September 2019 the earliest start date for the tightening cycle. However, it will be interesting to hear President Draghi’s take on the recent dataflow and risks around the economic outlook.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Trade balance (\$m)	Sep	-1365	-1484	10:45
NZ	NZ to sell \$150 2025 bonds				14:05
GE	GfK consumer confidence	Nov	10.5	10.6	19:00
GE	IFO expectations	Oct	100.4	101	21:00
EC	ECB deposit facility rate (%)	Oct	-0.4	-0.4	00:45
US	Advance goods trade bal. (\$b)	Sep	-75.1	-75.8	01:30
US	Durable goods orders (m/m%)	Sep	-1.5	4.4	01:30
US	Durables ex transport.	Sep	0.4	0.0	01:30
US	Pending home sales (m/m%)	Sep	0.0	-1.8	03:00

Source: Bloomberg, BNZ.

Foreign Exchange					Equities				Commodities**		
Indicative overnight ranges (*)					Major Indices				Price		
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day
NZD	0.6523	-0.4	0.6518	0.6567	S&P 500	2,701	-1.4	5.1	Oil (Brent)	76.73	+0.4
AUD	0.7067	-0.3	0.7061	0.7105	Dow	25,012	-0.7	6.7	Oil (WTI)	67.05	+0.9
EUR	1.1390	-0.7	1.1379	1.1477	Nasdaq	7,276	-2.1	10.3	Gold	1227.8	-0.4
GBP	1.2879	-0.8	1.2867	1.2989	Stoxx 50	3,130	-0.3	-13.3	HRC steel	827.0	-0.2
JPY	112.45	+0.0	112.38	112.74	FTSE	6,963	+0.1	-7.5	CRB	194.8	-0.1
CAD	1.3001	-0.6			DAX	11,192	-0.7	-14.0	Wheat Chic.	518.3	-2.1
NZD/AUD	0.9230	-0.2			CAC 40	4,953	-0.9	-8.2	Sugar	14.01	+1.2
NZD/EUR	0.5727	+0.2			Nikkei	22,091	+0.4	1.8	Cotton	77.33	-2.1
NZD/GBP	0.5065	+0.3			Shanghai	2,603	+0.3	-23.4	Coffee	120.3	-0.7
NZD/JPY	73.35	-0.4			ASX 200	5,829	-0.2	-1.3	WM powder	2650.0	-1.1
NZD/CAD	0.8481	-1.1			NZX 50	8,642	-0.4	6.4	<b>Australian Futures</b>		
NZ TWI	71.90	-0.2							3 year bond	97.93	0.02
									10 year bond	97.37	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				
USD	2.25	2.49	3.06	3.19	USD	3.13	-0.04	NZGB 6 05/15/21	1.80	-0.01	1 year	1.95	-0.00
AUD	1.50	1.92	2.03	2.81	AUD	2.66	-0.02	NZGB 5 1/2 04/15/23	1.99	-0.02	2 year	2.03	-0.00
NZD	1.75	1.90	2.01	2.88	NZD	2.46	-0.02	NZGB 2 3/4 04/15/25	2.26	-0.01	5 year	2.38	-0.01
EUR	0.00	0.06	-0.12	0.97	GER	0.40	-0.01	NZGB 4 1/2 04/15/27	2.46	-0.02	7 year	2.61	-0.01
GBP	0.75	0.80	1.10	1.58	GBP	1.46	-0.01	NZGB 3 04/20/29	2.63	-0.02	10 year	2.88	-0.01
JPY	-0.07	-0.09	0.05	0.33	JPY	0.14	-0.02	NZGB 3 1/2 04/14/33	2.81	-0.01	15 year	3.13	-0.01
CAD	1.75	1.17	2.66	2.89	CAD	2.46	0.01	NZGB 2 3/4 04/15/37	2.95	-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 06:53

Source: Bloomberg

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