

25 September 2018



Events Round-Up

GE: IFO Expectations, Sep: 101.0 vs. 100.5 exp.

Good Morning

It has been a fairly sleepy start to the week, with the NZD and AUD on a slightly softer note, not helped by lingering US-China trade war concerns, while GBP has recovered some of its big loss on Friday. Global rates are higher, with the market perceiving ECB Chair Draghi's comments as more hawkish.

Fresh US and China trade tariffs took effect yesterday and China's Cabinet published a White Paper effectively accusing Trump of being a trade bully, describing the America First policy as an abandonment of norms of mutual respect and consultation, "...making false accusations against many countries...intimidating other countries...and attempting to impose its own interests on China through extreme pressure". The paper defended China's policies, indicating how foreign companies have "taken the initiative" to work voluntarily with Chinese companies and how American companies have received "huge returns through technology transfer and licensing". This paper followed weekend reports that China would not meet with the US this week for planned trade talks.

This has set the tone for slightly softer NZD and AUD currencies, underperforming other currencies in extending overnight some of the weakness we saw during local trading hours. The NZD is currently sitting at 0.6645, close to its low for the session, while the AUD sits at 0.7255.

EUR rose 60pips to 1.1815 on what were perceived to be more hawkish comments by ECB Chair Draghi at a European Parliament committee meeting. Draghi largely repeated his message at the last ECB meeting press conference but added a comment about a "relatively vigorous" pickup in underlying inflation. However, the move in EUR wasn't sustained and it sits this morning at 1.1760 but a 4bps rise in Germany's 10-year rate after the comments has been sustained.

Higher European yields have helped underpin US Treasury

yields, with the 10-year rate up 1.5bps to 3.08% and, like last week, meeting some resistance at 3.09%. Some of the lift in yields might well reflect the ongoing rise in oil prices. Oil prices are on track to close at their highest level since 2014 Brent crude is up over 2% through USD81 per barrel as concerns over supply shortages overhang the market. OPEC left production steady after its weekend gathering and the market worries that US sanctions against Iran and outages in Venezuela will lead to supply shortages, while infrastructure bottlenecks in the US limit increased supply there. A few investment banks now target crude prices to reach \$90-\$100 by early 2019. Higher oil prices are leading to higher local petrol prices on an almost weekly basis, and will help headline inflation reach 2% much earlier than the RBNZ projected. However, to the extent that higher petrol prices act like a tax and eat into disposable income, they are also likely to act as a headwind on real economic activity such as underlying consumer spending.

In currency markets, GBP has been the best performing of the majors, up 0.4% to 1.3120, recovering some of the chunky 1.5% fall seen on Friday. The move was supported by the weekend M&A news, with US company Comcast winning the bid to buy Sky. There have also been a number of Brexit headlines, too numerous to mention. The Opposition Labour party conference is underway and there has been some intense debate on whether to allow another referendum on Brexit. Spokesman Starmer confirmed that the party will vote against any deal PM May brings back on Brexit that doesn't meet Labour's tests.

It's another quiet day on the economic calendar, with US consumer confidence data tonight the only indicator worth noting.

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Coming Up

	Period	Cons.	Prev.	NZT
US Conf. Board cons. confid.	Sep	132.0	133.4	02:00

Source: Bloomberg, BNZ.

Foreign Exchange							Equities				Commodities**					
Indicative overnight ranges (*)				Other FX			Major Indices				Price					
	Last	% Day	Low	High		Last	% Day			Last	% Day	Net Day				
NZD	0.6645	-0.6	0.6642	0.6675	CHF	0.9629	+0.5			S&P 500	2,919	-0.3	16.7	Oil (Brent)	81.07	+3.2
AUD	0.7256	-0.5	0.7253	0.7279	SEK	8.794	-0.3			Dow	26,577	-0.6	18.9	Oil (WTI)	72.11	+1.9
EUR	1.1757	+0.1	1.1724	1.1815	NOK	8.139	-0.1			Nasdaq	7,987	+0.0	24.3	Gold	1199.1	+0.2
GBP	1.3119	+0.4	1.3063	1.3167	HKD	7.812	-0.0			Stoxx 50	3,410	-0.6	-3.7	HRC steel	867.0	+0.3
JPY	112.71	+0.1	112.44	112.76	CNY	6.857	+0.2			FTSE	7,458	-0.4	2.0	CRB	194.9	+0.4
CAD	1.2943	+0.2			SGD	1.366	+0.1			DAX	12,351	-0.6	-1.9	Wheat Chic.	546.8	+0.8
NZD/AUD	0.9158	-0.1			IDR	14,866	+0.3			CAC 40	5,476	-0.6	3.7	Sugar	10.38	-4.2
NZD/EUR	0.5652	-0.6			THB	32.41	+0.0			Nikkei	23,870	+0.8	17.6	Cotton	79.28	+0.3
NZD/GBP	0.5065	-0.8			KRW	1,120	+0.4			Shanghai	2,797	+2.5	-16.6	Coffee	98.5	-1.4
NZD/JPY	74.90	-0.5			TWD	30.69	+0.0			ASX 200	6,187	-0.1	8.9	WMI powder	2725.0	+0.9
NZD/CAD	0.8601	-0.4			PHP	54.23	+0.3			NZX 50	9,338	-0.4	18.7	Australian Futures		
NZ TWI	72.25	-0.5											3 year bond	97.83	-0.03	
													10 year bond	97.25	-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	2.37	2.99	3.13	USD	3.08	0.02	NZGB 6 05/15/21	1.78	0.00	1 year	1.98	0.01
AUD	1.50	1.94	2.08	2.92	AUD	2.70	0.00	NZGB 5 1/2 04/15/23	2.00	0.00	2 year	2.04	0.01
NZD	1.75	1.93	2.05	2.92	NZD	2.49	0.00	NZGB 2 3/4 04/15/25	2.27	0.00	5 year	2.41	-0.00
EUR	0.00	0.06	-0.11	1.00	GER	0.51	0.05	NZGB 4 1/2 04/15/27	2.49	0.00	7 year	2.65	-0.01
GBP	0.75	0.80	1.15	1.69	GBP	1.61	0.06	NZGB 3 04/20/29	2.65	-0.01	10 year	2.92	-0.01
JPY	-0.06	-0.04	0.06	0.35	JPY	0.13	0.00	NZGB 3 1/2 04/14/33	2.83	-0.01	15 year	3.17	-0.01
CAD	1.50	1.17	2.53	2.82	CAD	2.44	0.01	NZGB 2 3/4 04/15/37	2.98	-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 06:55

Source: Bloomberg

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