

26 October 2018



Events Round-Up

NZ: Trade balance (\$m), Sep: -1560 vs. -1365 exp.
GE: IFO expectations, Oct: 99.8 vs. 100.4 exp.
EC: ECB deposit facility rate (%), Oct: -0.4 vs. -0.4 exp.
US: Advance gds trade bal. (\$b), Sep: -76.0 vs. -75.1 exp.
US: Durable goods orders (m/m%), Sep: 0.8 vs. -1.5 exp.
US: Durables ex transport., Sep: 0.1 vs. 0.4 exp.
US: Pending home sales (m/m%), Sep: 0.5 vs. 0.0 exp.

Good Morning

US equities have recovered strongly after yesterday's rout, putting some modest upward pressure on US Treasury yields, while the USD remains well bid. The NZD has remained tightly range-bound.

Equity market volatility continues, but this time showing a rare October daily increase. After yesterday's more than 3% fall, the S&P500 is currently up 1.9%, with some attributing this to better earnings results from familiar names like Twitter, Microsoft and Tesla, but the reality is that we're just in a more volatile trading environment for a number of possible reasons which we've outlined previously. European bourses were also positive, with the Euro Stoxx 600 index up 0.5% and Germany's DAX up 1.0%.

Focus was on the latest ECB meeting. As expected, the ECB's policy guidance was unchanged, with the Bank set to end its quantitative easing policy at the end of the year and rates to remain on hold "through the summer of 2019", which the consensus reads as September 2019. President Draghi still sees risks as "broadly balanced" and sees "no sense that we should doubt our confidence that inflation is gradually converging to our aim". "The labour market is becoming tighter and recent wage increases are here to stay", he added. The key takeaway from the meeting was that the ECB's base case remains intact despite recent market volatility, the weaker dataflow and Italy's Budget woes. EUR was initially bid up to 1.1430 as Draghi sounded more hawkish than expected, but this didn't last long and EUR is now down towards its low for the session around 1.1360.

The backdrop remains one of a broadly stronger USD. Bloomberg's DXY broke through technical resistance at 1200, reaching a fresh high for the year. The more widely quoted DXY hasn't broken through the August high of

96.98 but sits close to that at 96.65.

US data released overnight weren't exactly positive. US advanced trade in goods data were worse than expected in September, with the deficit widening to a record, with some front-running of imports ahead of the tariffs imposed against China being one factor. Aircraft inflated durables goods orders, and while the core figure underwhelmed expectations the trend remained positive. In other key data, Germany's IFO fell by more than expected, corroborating the slowing seen in the PMI yesterday.

Against a stronger USD backdrop, the NZD remains fairly resilient around 0.6515, barely lower from this time yesterday but down from an overnight high of 0.6544. Yesterday, the underlying NZ trade deficit was as bad as expected (the headline figure inflated by aircraft), with the annual deficit blasting through the \$5b mark on surging imports – certainly not a sign of economic weakness though. Export growth remains solid. The AUD has slightly outperformed, seeing NZD/AUD track down to 0.9210 during the local trading session and the cross has hovered around that level overnight.

At the bottom of the leaderboard, CAD gave up some of its gains seen after the Bank of Canada's hawkish rate hike noted yesterday, and GBP has slipped further, to 1.2820, as Brexit discussions continue. Irish PM Varadkar hosed down optimism that a EU-UK Customs Union could get around a backstop, stating that it would not be an alternative.

The US rates market has largely followed US equities, with the rebound in equities seeing the 10-year rate push up to 3.14%, up 4bps for the day and reversing some of yesterday's decline. New vice-chair of the Fed, Clarida, gave his first speech on monetary policy and he gave a fairly upbeat view on the US economic outlook, with a positive view on productivity, business investment and the labour market, seeing scope for stronger jobs without generating inflationary pressures. On rates he looked to stick to the line of the FOMC, in saying "I believe some further gradual adjustment in the policy rate range will likely be appropriate".

NZ rates fell yesterday, with some bigger falls seen across the government curve, some 6-7bps at the longer end, driven by global forces and strong demand for the 2025 tender. Expect to see some reversal of those moves today.

Finally, the WSJ reported that the US is refusing to resume trade negotiations with China until Beijing comes up with a concrete proposal to address Washington's complaints about forced technology transfers and other economic issues, according to officials on both sides of the Pacific. One White House official said that if China wanted a meaningful meeting between Trump and Xi at the November G20 meeting, then there needs to be some groundwork and without that it's hard to see the meeting being fruitful. China is reluctant to propose anything until further discussions have taken place, so there's a bit of a stand-off there.

In the day ahead some Japanese CPI data are released ahead of the first reading of Q3 US GDP, with the consensus expecting solid growth at an annual rate of 3.3%.

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Coming Up

		Period	Cons.	Prev.	NZT
JN	Tokyo CPI ex-fresh food (y/y%)	Oct	1.0	1.0	12:30
US	GDP (annualised q/q%)	Q3	3.3	4.2	01:30

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	0.6516	-0.2	0.6509	0.6544	CHF	1.0006	+0.3	S&P 500	2,707	+1.9	5.9	Oil (Brent)	76.64	+0.6
AUD	0.7076	+0.2	0.7057	0.7099	SEK	9.128	+0.0	Dow	24,965	+1.5	7.0	Oil (WTI)	67.34	+0.8
EUR	1.1360	-0.3	1.1359	1.1432	NOK	8.354	+0.0	Nasdaq	7,301	+2.7	11.2	Gold	1229.1	+0.1
GBP	1.2817	-0.5	1.2809	1.2919	HKD	7.841	+0.0	Stoxx 50	3,164	+1.1	-11.9	HRC steel	829.0	+0.0
JPY	112.64	+0.3	111.93	112.67	CNY	6.949	+0.1	FTSE	7,004	+0.6	-6.0	CRB	194.8	+0.2
CAD	1.3077	+0.2			SGD	1.381	-0.0	DAX	11,307	+1.0	-12.7	Wheat Chic.	506.8	-2.5
NZD/AUD	0.9209	-0.3			IDR	15,188	-0.1	CAC 40	5,032	+0.6	-6.4	Sugar	13.97	-1.1
NZD/EUR	0.5736	+0.1			THB	32.93	-0.0	Nikkei	21,269	-3.7	-2.2	Cotton	77.35	+0.4
NZD/GBP	0.5084	+0.4			KRW	1,138	+0.5	Shanghai	2,604	+0.0	-23.6	Coffee	121.2	+0.9
NZD/JPY	73.40	+0.2			TWD	30.99	+0.2	ASX 200	5,664	-2.8	-4.3	WM powder	2650.0	+0.0
NZD/CAD	0.8521	-0.0			PHP	53.75	+0.0	NZX 50	8,568	-0.9	6.0	Australian Futures		
NZ TWI	71.85	-0.1										3 year bond	97.915	-0.03
												10 year bond	97.35	-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	2.25	2.51	3.07	3.20	USD	3.14	0.03	NZGB 6 05/15/21	1.77	-0.03	1 year	1.95	-0.00	
AUD	1.50	1.92	2.04	2.82	AUD	2.61	-0.05	NZGB 5 1/2 04/15/23	1.95	-0.04	2 year	2.01	-0.02	
NZD	1.75	1.90	2.01	2.83	NZD	2.40	-0.06	NZGB 2 3/4 04/15/25	2.20	-0.06	5 year	2.34	-0.04	
EUR	0.00	0.06	-0.12	0.97	GER	0.40	0.00	NZGB 4 1/2 04/15/27	2.40	-0.06	7 year	2.57	-0.04	
GBP	0.75	0.81	1.10	1.59	GBP	1.44	-0.02	NZGB 3 04/20/29	2.56	-0.07	10 year	2.83	-0.04	
JPY	-0.06	-0.09	0.05	0.33	JPY	0.12	-0.02	NZGB 3 1/2 04/14/33	2.74	-0.07	15 year	3.09	-0.04	
CAD	1.75	1.17	2.66	2.89	CAD	2.47	0.03	NZGB 2 3/4 04/15/37	2.88	-0.07				

* 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 06:54

Source: Bloomberg

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