

26 September 2018



Events Round-Up

US: Conf. Board cons. confid., Sep: 138.4 vs. 132.0 exp.

Good Morning

Markets are trading water ahead of the FOMC's policy announcement less than 24 hours away now. Market movements have been insignificant but US 10-year Treasuries have nudged up to fresh highs.

With little economic news, few headlines to trade off and an FOMC meeting ahead, markets are quiet. The only data release of note was another strong US consumer confidence reading, with the Conference Board version unexpectedly jumping to an 18-year high. This was driven by the expectations component, while the labour market indicator – those saying jobs are plentiful less those saying jobs are hard to get – also rose to a near-18 year high. The data suggest ongoing strength in consumer spending and an ever-tightening US labour market.

Trump's address to the UN General Assembly didn't raise anything new relevant for the market. He signaled he won't back down on China tariffs and reiterated his line that OPEC nations are "ripping off the world" on oil prices. On that note, Brent crude continued to push to fresh highs as supply concerns linger, reaching USD82.55 a barrel before slipping to just under \$82, still up nearly 1% for the day.

The NZD has traded in a less than 30pip range over the past 24 hours and remains steady around 0.6650, with little movement on the crosses as well.

GBP has been the best performing, up 0.5% to 1.3185, amidst a whole host of conflicting Brexit headlines, while the BoE's Vlieghe reiterated his slightly hawkish view that 1 or 2 rate hikes per year are probably needed. The UK Labour Party conference has highlighted how split that party is on Brexit alongside the Conservatives. Shadow Brexit secretary Starmer went off-script when he said the party had not ruled out the possibility of another in-out EU referendum. Others, including the shadow Chancellor, were left to clarify Labour policy that any new public vote would only be on the terms of the Brexit deal, and not on whether to reverse the original decision to leave.

Bringing Canada into a new NAFTA deal is looking increasingly unlikely by the day, with the clock ticking and

US Trade Rep Lighthizer saying that it can't resolve its differences over dairy and a dispute resolution system. This raises some doubt whether the US and Mexico can go ahead with a bilateral deal. CAD has been immune to recent negative NAFTA headlines and has even showed little reaction to the recent push higher in oil prices.

ECB chief economist Praet downplayed remarks from ECB President Draghi, which had been interpreted by the market as more hawkish. This caused only a minor hiccup in EUR. And German bunds didn't reverse yesterday's move up in yield, indeed they pushed on another 3bps higher for the 10-year rate, taking the 2-day gain to 8bps.

The backdrop of stronger consumer confidence and higher oil prices have helped push US 10-year Treasury rates higher, reaching 3.11% overnight, approaching the multi-year high reached in May of 3.13%. The 2-year rate is up 2bps to a new high 2.84% as the market continues to edge towards the Fed's rate projections. Over the month to date, the market has priced in almost another full rate hike into the curve through to mid-2020.

Early tomorrow morning, the FOMC is set to hike the Fed Funds range by another 25bps to 2.0-2.25%. Focus will also be on whether the Fed sticks to its projected rate hike path amid trade uncertainty and a flattening yield curve – recent commentary by officials suggests they will and the balance of risk lies with the median Fed Funds rates for 2019 rising, not falling. The USD and rates might well be jumpy in the aftermath of the release, but we don't much scope for surprise or a sustained market reaction.

Today sees the release of ANZ's business outlook survey. So far, the plunge in business confidence and surveyed activity indicators has proven to be a poor steer for actual activity. The market would likely react more to a stronger survey than a weaker survey. Weakness in the survey played a role in the RBNZ's downgrading of the growth outlook at the August MPS so any recovery, alongside the recent stronger Q2 GDP data, would give the Bank some food for thought about its projections. Global forces saw NZ rates pushed up across the curve yesterday and we'd expect more of the same today.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Trade balance (\$m)	Aug	-925	-143	10:45
NZ	ANZ activity outlook (net%)	Sep		3.8	13:00
NZ	ANZ business confid. (net %)	Sep		-50.3	13:00
US	New home sales ('000)	Aug	630	627	02:00
US	FOMC Fed Funds range (%)	Sep	2-2.25	1.75-2	06:00

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	0.6651	+0.1	0.6637	0.6659	CHF	0.9643	+0.0		S&P 500	2,919	-0.1	16.9		Oil (Brent)	82.02	+0.8
AUD	0.7249	-0.0	0.7237	0.7263	SEK	8.799	+0.1		Dow	26,544	-0.3	19.1		Oil (WTI)	72.28	+0.3
EUR	1.1769	+0.2	1.1734	1.1793	NOK	8.124	-0.2		Nasdaq	8,005	+0.1	25.7		Gold	1199.7	+0.1
GBP	1.3188	+0.5	1.3095	1.3176	HKD	7.810	-0.0		Stoxx 50	3,420	+0.3	-3.3		HRC steel	861.0	-0.7
JPY	112.94	+0.1	112.74	112.96	CNY	6.868	+0.2		FTSE	7,508	+0.7	2.8		CRB	194.9	+0.2
CAD	1.2951	-0.0			SGD	1.366	+0.0		DAX	12,375	+0.2	-1.7		Wheat Chic.	536.5	-1.1
NZD/AUD	0.9175	+0.1			IDR	14,918	+0.3		CAC 40	5,479	+0.0	4.0		Sugar	10.36	-0.2
NZD/EUR	0.5651	-0.1			THB	32.42	-0.1		Nikkei	23,940	+0.3	17.8		Cotton	80.20	+1.9
NZD/GBP	0.5043	-0.4			KRW	1,119	-0.1		Shanghai	2,781	-0.6	-16.8		Coffee	97.3	-1.4
NZD/JPY	75.12	+0.2			TWD	30.67	-0.1		ASX 200	6,186	-0.0	9.1		WM powder	2760.0	+1.3
NZD/CAD	0.8614	+0.0			PHP	54.35	+0.2		NZX 50	9,346	+0.1	18.5		Australian Futures		
NZ TWI	72.25	+0.0												3 year bond	97.825	-0.01
														10 year bond	97.21	-0.04
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	3.01	3.16	USD	3.11	0.02	NZGB 6 05/15/21	1.79	0.01	1 year	1.98	0.01			
AUD	1.50	1.94	2.08	2.94	AUD	2.75	0.05	NZGB 5 1/2 04/15/23	2.02	0.02	2 year	2.05	0.01			
NZD	1.75	1.93	2.05	2.94	NZD	2.50	0.02	NZGB 2 3/4 04/15/25	2.29	0.02	5 year	2.42	0.01			
EUR	0.00	0.06	-0.11	1.03	GER	0.54	0.03	NZGB 4 1/2 04/15/27	2.50	0.02	7 year	2.66	0.02			
GBP	0.75	0.80	1.16	1.69	GBP	1.63	0.02	NZGB 3 04/20/29	2.67	0.02	10 year	2.94	0.02			
JPY	-0.06	-0.04	0.06	0.36	JPY	0.13	0.00	NZGB 3 1/2 04/14/33	2.85	0.02	15 year	3.20	0.02			
CAD	1.50	1.17	2.54	2.85	CAD	2.47	0.02	NZGB 2 3/4 04/15/37	2.99	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 06:52

Source: Bloomberg

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