

27 September 2018



Events Round-Up

NZ: Trade balance (\$m), Aug: -1484 vs. -925 exp.
 NZ: ANZ activity outlook (net%), Sep: 7.8 vs. 3.8 prev.
 NZ: ANZ business confid. (net%), Sep: -38.3 v. -50.3 prev.
 US: New home sales ('000), Aug: 629 vs. 630 exp.
 US: FOMC Fed Funds (%), Sep: 2-2.25 vs. 2-2.25 exp.

Good Morning

Financial markets were typically quiet heading into the FOMC policy announcement this morning. The Statement and the Fed's projections were in line with expectations, limiting any market reaction. For the day, US Treasury rates are slightly lower, while the USD is flat.

The Fed raised the Fed Funds range to 2-2.25%. The Fed's projections or "dots" showed that 12 of 16 members favoured another rate hike in December, making a fourth rate hike for 2018 at the end of the year almost a done deal. The dots showed three projected hikes through 2019 and the longer-run dot nudged up to 3.0%, which likely reflects the addition of new vice-Chair Clarida. The text of the Statement was almost identical to the August Statement with the only notable change being a dropping of the reference that the stance of monetary policy remains accommodative. This was a nod to the widely held view that the policy rate is getting pretty close to neutral.

All this was in line with market expectations, so the modest market reaction we saw simply reflected positioning. The immediate market reaction was a slightly weaker USD and a 1bps fall in rates across the Treasury curve, with rates already drifting lower ahead of the announcement following the nudge up in rates over recent days. These small movements were reversed as Fed Chair Powell spoke. For the session, US 2 and 10-year rates are down by 1-2bps to 2.83% and 3.08% respectively.

The NZD sits this morning at 0.6650, with an overnight high just shy of 0.67, which is proving to be a resistance level. Yesterday, the NZD was supported after the ANZ business outlook survey showed a modest recovery in confidence and most activity indicators. More data like this would remove some downside risk overhanging growth forecasts, including those of the RBNZ, and see potential rate cuts eventually priced out of the curve. Ahead of the RBNZ OCR Review later this morning the

rates market was reluctant to change pricing to any significant degree and was little changed after the release.

Earlier in the session, the market ignored the worst monthly trade deficit figure on record. The large trade deficit might well reflect an overheated and capacity-constrained economy, with strong import growth (even excluding the impact of higher oil prices) outpacing strong export growth. NZ's growing current account deficit isn't presently on the radar of investors, but might be if it pushes above 4% of GDP next year, as we think.

The afterglow of that business survey sees the NZD slightly higher on all the crosses for the day, but it has failed to sustain its gain against the AUD, with NZD/AUD flat around 0.9160.

In other news, CAD has been the weakest of the majors as it looks likely to be shut out of any new trade deal. The Trump administration will publish the text for its bilateral trade deal with Mexico on Friday, which will likely exclude Canada but leave open the possibility for the country to join the agreement later. USD/CAD is up 0.5% to 1.3020.

US-China trade tensions remain as tense as ever, with President Trump accusing China of "attempting to interfere" in the 2018 midterm elections. In another address to the UN he commented "They do not want me – or us – to win because I am the first president ever to challenge China on trade."

Focus today turns to the RBNZ's OCR Review at 9am. The RBNZ should acknowledge the stronger starting point for the economy, following the Q2 GDP miss. But we doubt it has changed its policy outlook for keeping rates on hold "for a considerable period". We'd expect the Bank's language to remain similar to August, in keeping its options open about policy, and that shouldn't lead to much market reaction.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	RBNZ Official cash rate (%)	Sep	1.75	1.75	09:00
GE	GfK consumer confidence	Oct	10.5	10.5	18:00
EC	Economic confidence	Sep	111.2	111.6	21:00
GE	CPI EU harmonised (y/y%)	Sep	1.9	1.9	00:00
US	Advance goods trade bal (\$b)	Aug	-70.6	-72.0	00:30
US	Durable goods orders (m/m%)	Aug	2.0	-1.7	00:30
US	Durables extrans. (m/m%)	Aug	0.4	0.1	00:30
US	Pending home sales (m/m%)	Aug	-0.5	-0.7	02:00

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	0.6652	+0.1	0.6641	0.6696	CHF	0.9644	+0.2	S&P 500	2,926	+0.4	17.2	Oil (Brent)	81.33	-0.7
AUD	0.7257	+0.1	0.7241	0.7315	SEK	8.795	+0.0	Dow	26,588	+0.1	19.3	Oil (WTI)	71.61	-0.9
EUR	1.1742	-0.2	1.1726	1.1798	NOK	8.098	-0.2	Nasdaq	8,061	+0.5	26.3	Gold	1197.6	-0.8
GBP	1.3165	-0.1	1.3138	1.3218	HKD	7.810	+0.0	Stoxx 50	3,433	+0.4	-2.9	HRC steel	841.0	-0.1
JPY	113.01	+0.0	112.75	113.06	CNY	6.879	+0.2	FTSE	7,511	+0.1	3.1	CRB	194.1	-0.6
CAD	1.3017	+0.5			SGD	1.364	-0.0	DAX	12,386	+0.1	-1.7	Wheat Chic.	536.8	-0.6
NZD/AUD	0.9166	-0.0			IDR	14,911	-0.0	CAC 40	5,513	+0.0	4.6	Sugar	9.90	-4.4
NZD/EUR	0.5665	+0.3			THB	32.43	+0.2	Nikkei	24,034	+0.4	18.6	Cotton	80.41	+2.1
NZD/GBP	0.5053	+0.2			KRW	1,118	-0.2	Shanghai	2,807	+0.9	-16.1	Coffee	97.8	+0.7
NZD/JPY	75.17	+0.1			TWD	30.69	+0.0	ASX 200	6,192	+0.1	9.3	WMI powder	2750.0	-0.4
NZD/CAD	0.8659	+0.6			PHP	54.29	-0.1	NZX 50	9,350	+0.0	18.1	Australian Futures		
NZ TWI	72.49	+0.4										3 year bond	97.845	0.03
												10 year bond	97.25	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	2.38	3.00	3.14	USD	3.08	-0.02	NZGB 6 05/15/21	1.80	0.01	1 year	1.98	-0.00	
AUD	1.50	1.94	2.07	2.90	AUD	2.73	-0.02	NZGB 5 1/2 04/15/23	2.03	0.00	2 year	2.06	0.00	
NZD	1.75	1.92	2.06	2.94	NZD	2.51	0.01	NZGB 2 3/4 04/15/25	2.30	0.01	5 year	2.43	0.01	
EUR	0.00	0.06	-0.11	1.01	GER	0.53	-0.02	NZGB 4 1/2 04/15/27	2.51	0.01	7 year	2.67	0.01	
GBP	0.75	0.80	1.15	1.66	GBP	1.59	-0.04	NZGB 3 04/20/29	2.68	0.01	10 year	2.95	0.00	
JPY	-0.06	-0.04	0.06	0.35	JPY	0.13	-0.01	NZGB 3 1/2 04/14/33	2.86	0.00	15 year	3.20	0.01	
CAD	1.50	1.17	2.53	2.83	CAD	2.44	-0.02	NZGB 2 3/4 04/15/37	3.00	0.00				

* 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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