

28 September 2018



Events Round-Up

NZ: RBNZ Official cash rate (%), Sep: 1.75 vs. 1.75 exp.

GE: GfK consumer confidence, Oct: 10.6 vs. 10.5 exp.

EC: Economic confidence, Sep: 110.9 vs. 111.2 exp.

GE: CPI EU harmonised (y/y%), Sep: 2.2 vs. 1.9 exp.

US: Advance gds trade bal (\$b), Aug: -75.8 vs. -70.6 exp.

US: Durable goods orders (m/m%), Aug: 4.5 vs. 2.0 exp.

US: Durables ex trans. (m/m%), Aug: 0.1 vs. 0.4 exp.

US: Pending home sales (m/m%), Aug: -1.8 vs. -0.5 exp.

Good Morning

The USD is stronger across the board which sees the NZD down to its lowest level this week around 0.6620, but steady on most of the crosses. US 10-year rates are steady at 3.05%.

The USD is strong, with the various dollar indices we track up 0.5-0.75% for the day. It is not entirely obvious why the USD is so well bid but a number of factors could be in play – the afterglow of the FOMC statement yesterday morning where it maintained a clear bias to continue hiking rates through 2019 and into 2020, pressure on EUR as Italy's budget debate comes into focus, end-of-quarter rebalancing, and spike up in year-end dollar funding that has seen a collapse in the EUR/USD cross currency basis.

The 3-month EUR/USD cross currency basis swap plunged from -16bps to -41bps, with the 3-month tenor now covering the remainder of 2018, a sign that investors are getting in early to cover year-end dollar funding demand. The daily fall was the largest since the depths of the GFC in 2009. It means that European buyers of US Treasuries face a higher cost to cover their foreign exchange risk, reducing the appeal of US Treasuries versus, say, German bunds. Demand for dollar hedging can also put upward pressure on the USD.

A last minute dispute between Italy's two deputy PMs and the Finance Minister over a demand for extra spending and thus the size of the fiscal deficit, got the market's attention and saw a weaker Euro and higher Italian bond yields. At the time of writing the Italian Cabinet were meeting to discuss targets and an agreement had still not been reached, but some headlines suggest that the deficit target would come in wider than the market was hoping for. EUR is down 0.7% to 1.1660.

The focus on Italy took the gloss off German CPI figures that were much higher than expected (by 0.3 percentage points), suggesting that euro-area CPI figures due tonight will also be higher than the consensus estimate surveyed earlier in the week. Recall earlier in the week, ECB President Draghi noted the "vigorous" pick-up in core inflation. Higher inflation data would eventually support EUR, but today wasn't the day. A possible offsetting factor was that Euro-area economic confidence – a mix of business and consumer confidence – fell for the ninth consecutive month.

US data released weren't exactly flash and they resulted in a number of economists trimming their Q3 growth estimates down to around 3%. The US goods trade deficit was much greater than expected, against President Trump's ambitions to cut the deficit (of course, his own policies go a long way in explaining the wider deficit). Durable goods orders were boosted by aircraft and defence spending, with core orders coming in softer than expected. Pending home sales data suggest the housing market is continuing to cool, against a backdrop of the highest (30year) mortgage rates in seven years.

Against a backdrop of a strong USD, the NZD is down to around 0.6620. Yesterday there was little market reaction to the RBNZ's OCR Review, which came as no surprise. The statement showed little change in guidance about the policy outlook. Recent data have not swayed the Bank from its August projections. The Bank kept its policy options open, reiterating that the direction of the next OCR move could be up or down and that it expected to keep the OCR unchanged through 2019 and 2020. There was little reaction in the rates market, with the modest fall in rates across the swap and bond curves a reflection of global forces, following the nudge down in rates after the FOMC statement. The market still seems happy to price in a chance of easier monetary policy over the year ahead, with a close to 30% chance of a 25bps cut priced in by August 2019.

The NZD is flat on the major crosses – versus AUD, EUR, GBP and JPY. The only notable change is a weaker NZD/CAD, down 0.6% to 0.8625, with CAD matching USD strength for the day. CAD was hit in the previous session when reports came through that it was unlikely to be part of a trade deal when text on a US-Mexico is released by the end of this week. The option will be left open to include Canada in a later deal.

The calendar for the day ahead is heavy. The ANZ NZ

consumer confidence index is more likely than not to show some further slippage while dwelling consents should rebound after a couple of chunky monthly falls. Globally, the key releases are euro-area CPI, now expected to be stronger than the consensus, and the US core PCE deflator, expected to remain steady on target at 2.0% y/y.

jason.k.wong@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
NZ	ANZ consumer confidence	Sep		117.6	10:00
NZ	Building permits (m/m%)	Aug		-10.3	10:45
UK	GfK consumer confidence	Sep	-8	-7	11:01
JN	Tokyo CPI ex-fresh food (y/y%)	Sep	0.9	0.9	11:30
JN	Industrial production (m/m%)	Aug	1.4	-0.1	11:50
CH	Caixin PMI manufacturing	Sep	50.5	50.6	13:45
NZ	NZ to sell \$150m 2025 bonds				14:05
GE	Unemployment claims rate (%)	Sep	5.2	5.2	19:55
EC	CPI Core (y/y%)	Sep	1.1	1.0	21:00
CA	GDP (m/m%)	Jul	0.1	0.0	00:30
US	PCE Core (y/y%)	Aug	2.0	2.0	00:30
US	Personal income (m/m%)	Aug	0.4	0.3	00:30
US	Personal spending (m/m%)	Aug	0.3	0.4	00:30
US	Chicago PMI	Sep	62.0	63.6	01:45
US	Fed's Williams speaks in New York				08:45

Source: Bloomberg, BNZ.

Foreign Exchange					Equities				Commodities**						
Indicative overnight ranges (*)					Major Indices				Price						
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day				
					CHF	0.9776	+1.1		S&P 500	2,923	+0.5	16.6	Oil (Brent)	81.53	+0.4
AUD	0.7214	-0.6	0.7209	0.7261	SEK	8.832	+0.3		Dow	26,516	+0.4	18.7	Oil (WTI)	72.02	+0.9
EUR	1.1661	-0.7	1.1661	1.1751	NOK	8.143	+0.4		Nasdaq	8,064	+0.8	25.0	Gold	1182.3	-0.9
GBP	1.3090	-0.6	1.3092	1.3164	HKD	7.813	+0.0		Stoxx 50	3,450	+0.5	-3.0	HRC steel	842.0	+0.0
JPY	113.39	+0.6	112.56	113.47	CNY	6.890	+0.2		FTSE	7,545	+0.5	3.2	CRB	194.1	+0.1
CAD	1.3036	+0.1			SGD	1.367	+0.1		DAX	12,436	+0.4	-1.8	Wheat Chic.	531.3	-0.9
NZD/AUD	0.9175	-0.0			IDR	14,923	+0.1		CAC 40	5,540	+0.2	4.9	Sugar	10.05	+1.5
NZD/EUR	0.5676	+0.0			THB	32.42	-0.1		Nikkei	23,797	-1.0	16.9	Cotton	79.00	-1.8
NZD/GBP	0.5057	-0.0			KRW	1,113	-0.4		Shanghai	2,792	-0.5	-16.4	Coffee	99.3	+1.6
NZD/JPY	75.05	-0.0			TWD	30.58	-0.4		ASX 200	6,181	-0.2	9.0	WM powder	2750.0	+0.0
NZD/CAD	0.8629	-0.6			PHP	54.15	-0.3		NZX 50	9,286	-0.7	17.3	Australian Futures		
NZ TWI	72.19	-0.3											3 year bond	97.87	-0.01
													10 year bond	97.29	-0.02

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	2.39	3.00	3.12	USD	3.06	0.01	NZGB 6 05/15/21	1.79	-0.00	1 year	1.98	-0.00
AUD	1.50	1.95	2.05	2.88	AUD	2.69	-0.05	NZGB 5 1/2 04/15/23	2.01	-0.02	2 year	2.04	-0.02
NZD	1.75	1.91	2.04	2.91	NZD	2.48	-0.03	NZGB 2 3/4 04/15/25	2.27	-0.02	5 year	2.41	-0.02
EUR	0.00	0.06	-0.10	1.02	GER	0.53	0.00	NZGB 4 1/2 04/15/27	2.48	-0.03	7 year	2.65	-0.02
GBP	0.75	0.80	1.16	1.67	GBP	1.60	0.01	NZGB 3 04/20/29	2.65	-0.04	10 year	2.92	-0.03
JPY	-0.06	-0.04	0.06	0.34	JPY	0.12	-0.01	NZGB 3 1/2 04/14/33	2.82	-0.04	15 year	3.17	-0.03
CAD	1.50	1.17	2.53	2.80	CAD	2.42	0.01	NZGB 2 3/4 04/15/37	2.97	-0.03			

* 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 06:56

Source: Bloomberg

Contact Details

Jason Wong

Senior Markets Strategist
+64 4 924 7652

Nick Smyth

Interest Rate Strategist
+64 4 924 7653

National Australia Bank

Ray Attrill

Head of FX Strategy
+61 2 9237 1848

Rodrigo Catril

Senior FX Strategist
+61 2 9293 7109

Gavin Friend

Senior Market Strategist
+44 20 7710 1588

Skye Masters

Head of Fixed Income Research
+61 2 9295 1196

Alex Stanley

Senior Interest Rate Strategist
+61 2 9237 8154

Analyst Disclaimer: The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Global Markets Division of NAB.

NAB maintains an effective information barrier between the research analysts and its private side operations. Private side functions are physically segregated from the research analysts and have no control over their remuneration or budget. The research functions do not report directly or indirectly to any private side function. The Research analyst might have received help from the issuer subject in the research report.

New Zealand: This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. To the extent that any information or recommendations in this publication constitute financial advice, they do not take into account any person's particular financial situation or goals. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication. **National Australia Bank Limited is not a registered bank in New Zealand.**

USA: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.