

29 October 2018



Events Round-Up

JN: Tokyo CPI ex-fresh food (y/y%), Oct: 1.0 vs. 1.0 exp.

US: GDP (annualised q/q%), Q3: 3.5 vs. 3.3 exp.

US: Core PCE deflator (y/y%), Q3: 1.6 vs. 1.8 exp.

Good Morning

US equities had another rough day, sending US Treasury rates lower, while JPY was the strongest of the majors in the risk-off environment. The NZD saw a couple of forces on Friday, with the net result being little change after a temporary shunt downwards.

Late on Friday the AUD and NZD were shunted lower as focus turned to CNY. The yuan weakened to a fresh low in the afternoon, seeing USD/CNY up to 6.964 and USD/CNH up through 6.9750. The move was likely driven by speculators testing the resolve of the PBoC to defend the yuan. This move spread to the NZD and AUD, the market's favourite China proxies, seeing the NZD fall to 0.6465, approaching the October low of 0.6425 and the AUD down to a tick above 0.7020, a fresh multi-year low. Newswires reported comments by PBoC Deputy Governor Pan saying that the central bank would take "macro-prudential measures to stabilise expectation in the foreign exchange market" and that the PBoC is confident to keep the yuan at a reasonable, equilibrium level.

Traders suspected the PBoC then entered the market supporting the yuan which saw a turnaround in CNY, later followed by the NZD and AUD. Reuters reported "China is likely to use its vast currency reserves to stop any precipitous fall through the level of 7 yuan per dollar as it could risk triggering speculation and heavy capital outflows, citing unidentified policy insiders". Call it a "win" for the PBoC on the day, but expect many more speculative attacks over coming months, which could easily see the episode repeated for NZD and AUD.

US equities had another whippy trading session on Friday. Weaker than expected earnings from Google and Amazon after the previous close set the scene for the day. The index was down almost 3% at its low, recovering a lot of that lost ground, and falling again, ending the session down 1.7%. That made the index down 3.9% for the week and down 8.8% for the month, on pace for its worst month since the GFC.

US Q3 GDP data were slightly stronger than expected, but the 3.5% annualised rate was inflated by inventory

building. While consumer spending was strong, the "bears" focused on the poor reading for business investment, which barely rose during the quarter, raising some doubt about the sustainability of growth going forward, following the sugar-rush from the fiscal stimulus.

Weaker US equities saw US Treasuries well bid across the curve, with the 10-year rate down to a low of 3.06% before ending the session near 3.075%, down 4bps for the day and down 12bps for the week – back to levels seen earlier this month and the 3.26% high for the month now seemingly a distant memory. Reflecting global forces, NZ government rates were 2bps lower across the curve. The 2-year swap rate is threatening to break below 2% again while the 10-year swap rate is testing support at 2.80%.

The USD weakened across the board after the GDP release, which was instrumental in the recovery in the NZD and AUD noted above. The NZD ended the week around 0.6520, while the AUD ended up around 0.7090. In the risk-off environment JPY was the strongest of the majors. USD/JPY got down to as low as 111.40 before ending the week around 111.90. NZD/JPY support of 72.30 held, with the cross ending the week just under 73. EUR ended the week back with a 1.14 handle, while GBP was flat around 1.2830 after a brief lurch down to 1.2780.

The economic calendar for the week ahead is very busy, culminating in the US payrolls report at the end of the week, which is expected to show the strongest annual wage inflation since the GFC. Earlier in the week the US employment cost index and PMI data will be important as well. The week ahead includes Australian and euro-area CPI and China PMI data as well, while locally the ANZ business outlook survey on Wednesday will be of some interest. But the start of the week is quiet, with US income and spending data alongside the PCE deflators tonight. The GDP data release already revealed what happened for the quarter, so the only interest in this will be the monthly breakdown.

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Coming Up

| | | Period | Cons. | Prev. | NZT |
|----|--------------------------|--------|-------|-------|-------|
| US | Personal income (m/m%) | Sep | 0.4 | 0.3 | 01:30 |
| US | Personal spending (m/m%) | Sep | 0.4 | 0.3 | 01:30 |
| US | PCE core (y/y%) | Sep | 2.0 | 2.0 | 01:30 |

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 | 0.6522 | -0.3 | 0.6465 | 0.6533 | CHF | 0.9970 | -0.2 | | | S&P 500 | 2,659 | -1.7 | 3.0 | Oil (Brent) | 77.62 | +0.9 |
| AUD | 0.7090 | +0.1 | 0.7021 | 0.7104 | SEK | 9.133 | +0.2 | | | Dow | 24,688 | -1.2 | 5.4 | Oil (WTI) | 67.59 | +0.4 |
| EUR | 1.1403 | +0.2 | 1.1336 | 1.1413 | NOK | 8.352 | +0.1 | | | Nasdaq | 7,167 | -2.1 | 7.0 | Gold | 1232.5 | +0.3 |
| GBP | 1.2828 | +0.1 | 1.2777 | 1.2842 | HKD | 7.841 | -0.0 | | | Stoxx 50 | 3,135 | -0.9 | -14.2 | HRC steel | 835.0 | +0.5 |
| JPY | 111.91 | -0.5 | 111.38 | 112.27 | CNY | 6.944 | -0.1 | | | FTSE | 6,940 | -0.9 | -7.5 | CRB | 195.5 | +0.4 |
| CAD | 1.3106 | +0.2 | | | SGD | 1.380 | -0.1 | | | DAX | 11,201 | -0.9 | -15.3 | Wheat Chic. | 524.3 | +3.2 |
| NZD/AUD | 0.9199 | -0.2 | | | IDR | 15,217 | +0.2 | | | CAC 40 | 4,967 | -1.3 | -9.6 | Sugar | 13.84 | -0.9 |
| NZD/EUR | 0.5720 | -0.3 | | | THB | 33.06 | +0.4 | | | Nikkei | 21,185 | -0.4 | -3.7 | Cotton | 78.53 | +1.1 |
| NZD/GBP | 0.5084 | -0.1 | | | KRW | 1,142 | +0.3 | | | Shanghai | 2,599 | -0.2 | -23.9 | Coffee | 119.7 | -1.2 |
| NZD/JPY | 72.99 | -0.8 | | | TWD | 30.99 | -0.0 | | | ASX 200 | 5,665 | +0.0 | -4.0 | WMI powder | 2650.0 | +0.0 |
| NZD/CAD | 0.8548 | -0.2 | | | PHP | 53.56 | -0.4 | | | NZX 50 | 8,568 | +0.0 | 6.0 | Australian Futures | | |
| NZ TWI | 71.82 | -0.4 | | | | | | | | | | | | 3 year bond | 97.965 | 0.05 |
| | | | | | | | | | | | | | | 10 year bond | 97.42 | 0.07 |

| 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 | Last | Last | | | |
| USD | 2.25 | 2.52 | 3.02 | 3.14 | USD | 3.08 | -0.04 | NZGB 6 05/15/21 | 1.76 | -0.02 | 1 year | 1.94 | -0.01 |
| AUD | 1.50 | 1.92 | 2.01 | 2.76 | AUD | 2.60 | -0.02 | NZGB 5 1/2 04/15/23 | 1.93 | -0.02 | 2 year | 2.01 | -0.00 |
| NZD | 1.75 | 1.89 | 2.01 | 2.78 | NZD | 2.38 | -0.02 | NZGB 2 3/4 04/15/25 | 2.18 | -0.02 | 5 year | 2.32 | -0.02 |
| EUR | 0.00 | 0.06 | -0.12 | 0.94 | GER | 0.35 | -0.05 | NZGB 4 1/2 04/15/27 | 2.38 | -0.02 | 7 year | 2.55 | -0.02 |
| GBP | 0.75 | 0.81 | 1.08 | 1.54 | GBP | 1.38 | -0.06 | NZGB 3 04/20/29 | 2.54 | -0.02 | 10 year | 2.80 | -0.03 |
| JPY | -0.07 | -0.10 | 0.05 | 0.31 | JPY | 0.11 | -0.00 | NZGB 3 1/2 04/14/33 | 2.72 | -0.02 | 15 year | 3.06 | -0.03 |
| CAD | 1.75 | 1.17 | 2.62 | 2.83 | CAD | 2.39 | -0.06 | NZGB 2 3/4 04/15/37 | 2.86 | -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: NY close Sat morning

Source: Bloomberg

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