

30 August 2018



Events Round-Up

US: GDP (q/q% annualised), Q2: 4.2 vs. 4 exp.

US: Core PCE deflator (q/q%, ann), Q2: 2 vs. 2 exp.

US: Pending home sales (m/m%), Jul: -0.7 vs. 0.3 exp.

Good Morning

US equities moved higher again amid low volatility and positive underlying risk appetite sentiment. In currencies, the GBP strengthened after EU chief negotiator Michel Barnier said the EU was prepared to offer a special deal to the UK, although with the usual caveats. The AUD is the weakest currency over the past 24 hours after Westpac's out-of-cycle mortgage rate hike.

The S&P500 and NASDAQ hit fresh record highs again overnight as a risk-on mood continues to grow in markets. The S&P500 was up 0.5%, led by tech and energy stocks, the latter boosted by a 2% rise in oil prices after a larger than expected decline in crude oil inventories at the DOE's weekly report. The S&P500 is now over 4% higher this month and over 8% since the start of July. Equities have been supported by strong corporate earnings, a robust US and global economy, low levels of realized and implied volatility, and a gradual pace of Fed tightening that has kept long-end bond yields range-bound for several months.

While the US-China trade stand-off lingers in the background, the immediate market focus is the negotiations around a revised NAFTA agreement. Yesterday, the Globe and Mail reported that Canada was willing to cede some access to its dairy sector in exchange for US concessions in other areas, including dispute resolution. The CAD jumped 0.2% on the report, although it has since pared those gains. Later, Canada's Foreign Minister Chrystia Freeland said she was "optimistic" a deal could be done by Friday, although there were still many areas left to agree on.

The USD is marginally weaker and US rates close to unchanged on the day. The second estimate of US GDP was revised slightly higher to 4.2%, but this generated little market reaction. Next week will be more interested on the data front, with the ISM surveys, durable goods order and non-farm payrolls all released.

The GBP is the outperformer across the G10, more than 1% higher on the day, after EU chief negotiator Michel

Barnier said the EU was willing to offer the UK a deal that it does not have with any other country. He said this included an "ambitious free-trade agreement" as well as cooperation across areas like security and foreign policy. Although Barnier added the usual caveats, namely that the EU wouldn't compromise on its Single Market principles, the comments represented a welcome break from the recent stream of warnings about the potential for a no-deal Brexit. According to Bloomberg, both sides now agree a deal is not likely until November, rather than October, and given the EU's historical penchant for last-minute deals, the market is likely to remain cautious until there is more certainty over an agreement. Short positioning in the GBP likely exacerbated the move higher.

The weakest currency on the day was the AUD after Westpac announced that it would raise variable mortgage rates by 14bps, the first of the 4 major banks to do so. Westpac cited a sustained increase in short-end funding costs (the Australian 3 month bank bill rate has risen 16bps this year despite no increase in the RBA's cash rate) as the driver for the change. The AUD swiftly fell from 0.7345 to 0.73 after the news and the Australian 3 year government bond fell 5bps, as the market inferred that out-of-cycle interest rate hikes would lead the RBA to be on hold for even longer (the first hike is now priced for around Q3 2020, but there is no material risk of rate cuts priced). Our NAB colleagues think it would take a more significant increase in mortgage rates (perhaps of the order of 30-40bps) to bring about an alteration to the RBA's economic forecasts and monetary policy.

The NZD fell in response to the move lower in the AUD after Westpac's move, but it has since rebounded back to 0.6710 – unchanged on the day. The NZD/AUD is 0.5% higher and is nudging up against 0.92, its highest level since the start of the month. Westpac's announcement came after the local swaps market close yesterday, so there might be a modest downward move in NZ rates today. The major focus today though is the release of the ANZ business survey.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Building Permits MoM	Jul		-7.6	10:45
NZ	ANZ Activity Outlook	Aug		3.8	13:00
NZ	ANZ Business Confidence	Aug		-44.9	13:00
AU	Private Capital Expenditure	2Q	0.6	0.4	13:30
EC	Economic Confidence	Aug	111.9	112.1	21:00
GE	CPI EU Harmonized (y/y%)	Aug P	2.1	2.1	00:00
CA	GDP (y/y%)	Jun	2.3	2.6	00:30
US	PCE Core (y/y%)	Jul	2	1.9	00:30

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	0.6709	+0.0	0.6685	0.6712	CHF	0.9712	-0.5		S&P 500	2,913	+0.5	19.1	Oil (Brent)	77.19	+1.6
AUD	0.7300	-0.5	0.7275	0.7346	SEK	9.151	+0.2		Dow	26,117	+0.2	19.4	Oil (WTI)	69.53	+1.5
EUR	1.1699	+0.0	1.1652	1.1708	NOK	8.343	+0.0		Nasdaq	8,102	+0.9	28.6	Gold	1206.9	-0.2
GBP	1.3022	+1.2	1.2846	1.3023	HKD	7.849	-0.0		Stoxx 50	3,456	+0.2	2.0	HRC steel	861.0	-0.2
JPY	111.68	+0.4	111.12	111.83	CNY	6.821	+0.3		FTSE	7,563	-0.7	3.1	CRB	193.0	+0.6
CAD	1.2921	-0.1			SGD	1.366	+0.1		DAX	12,562	+0.3	5.2	Wheat Chic.	541.8	+3.5
NZD/AUD	0.9190	+0.5			IDR	14,645	+0.1		CAC 40	5,501	-0.2	9.3	Sugar	10.37	+0.7
NZD/EUR	0.5735	-0.0			THB	32.70	+0.3		Nikkei	22,848	+0.2	17.1	Cotton	82.97	-0.6
NZD/GBP	0.5152	-1.2			KRW	1,110	+0.1		Shanghai	2,769	-0.3	-17.7	Coffee	102.9	-0.2
NZD/JPY	74.93	+0.4			TWD	30.71	-0.0		ASX 200	6,352	+0.8	12.0	WM powder	2850.0	+0.4
NZD/CAD	0.8669	-0.1			PHP	53.46	+0.3		NZX 50	9,363	+1.6	20.4	Australian Futures		
NZ TWI	72.67	+0.2											3 year bond	97.975	0.05
													10 year bond	97.44	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			Last		
USD	2.00	2.31	2.85	2.96	USD	2.88	0.00	NZGB 6 05/15/21	1.75	0.00	1 year	1.96	0.00		
AUD	1.50	1.96	2.01	2.76	AUD	2.55	-0.01	NZGB 5 1/2 04/15/23	1.98	0.00	2 year	2.04	-0.00		
NZD	1.75	1.92	2.04	2.89	NZD	2.44	0.00	NZGB 2 3/4 04/15/25	2.26	0.00	5 year	2.38	-0.00		
EUR	0.00	0.06	-0.15	0.92	GER	0.40	0.02	NZGB 4 1/2 04/15/27	2.44	0.00	7 year	2.62	0.00		
GBP	0.75	0.81	1.12	1.59	GBP	1.49	0.04	NZGB 3 04/20/29	2.61	0.00	10 year	2.89	0.00		
JPY	-0.05	-0.03	0.05	0.32	JPY	0.10	0.01	NZGB 3 1/2 04/14/33	2.78	0.01	15 year	3.14	0.00		
CAD	1.50	1.17	2.46	2.70	CAD	2.32	-0.00	NZGB 2 3/4 04/15/37	2.94	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 06:56

Source: Bloomberg

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