Events Round-Up

NZ: ANZ consumer confidence, Sep: 113.9 vs. 118.2 prev.  
EC: Economic Confidence, Sep: 101.7 vs. 103.0 exp.  
US: Personal income (m/m%), Aug: 0.4 vs. 0.4 exp.  
US: Personal spending (m/m%), Aug: 0.1 vs. 0.3 exp.  
US: PCE core deflator (m/m%), Aug: 0.1 vs. 0.2 exp.  
US: PCE core deflator (y/y%), Aug: 1.8 vs. 1.8 exp.  
US: Durables goods orders (m/m%), Aug: 0.2 vs. -1.1 exp.  
US: Capital goods orders nondef ex air. (m/m%), Aug: -0.2 vs. 0 exp.  
US: U. of Mich. cons. sent. (final), Sep: 93.2 vs. 92.1 exp.

Good Morning

US equity markets closed lower on Friday night after Bloomberg reported that the US administration was considering delisting Chinese companies in the US and restricting US portfolio flows into Chinese markets. The CNH also weakened on the report, although there was only a minor impact on the NZD and AUD. There was little net movement in FX and bond markets on Friday. It's a big week ahead, with the RBA meeting tomorrow, the Chinese PMIs, ISM surveys and nonfarm payrolls, as well as the QSBO survey in NZ.

The main story on Friday night was the release of a Bloomberg report that claimed the US administration had discussed measures to limit US investment in Chinese companies. According to the report, the measures under consideration included delisting Chinese companies listed on US exchanges (with a combined market capitalisation of approximately $1.2tn), restricting US government pension funds from investing in Chinese markets, and putting caps on Chinese firms included in equity indices managed by US firms. The US motivation for the measures is reportedly due to concerns around disclosure standards among Chinese companies and Chinese state involvement in listed companies, although some will no doubt see this as another attempt to gain leverage in the trade negotiations. Discussions are reportedly at a preliminary stage and it’s uncertain whether the proposed measures will ever come to fruition (there could be the threat of Chinese retaliation, given that China is a much bigger investor in US capital markets than vice versa (i.e. through its holding of US Treasuries), and the potential for financial conditions to tighten ahead of the US election next year). Over the weekend, a US Treasury spokesperson said it was not considering plans to block Chinese companies listing in the US “at this time”, although they didn’t address the other measures allegedly under discussion.

The Bloomberg report helped dampen expectations ahead of the high-level US-China trade talks which are due to resume next week. The S&P500 dropped as much as 1.4% although it recovered over the last hour of trading to close only 0.5% lower. Chinese companies listed in the US fell sharply, including Alibaba which dropped 5%. USD/CNH rose 0.5% to as high as 7.15, although it recovered towards the end of the trading session to finish the week just below 7.14 (a rise of 0.3% on the day). The NZD and AUD fell from their respective highs of the day, but the moves were reasonably modest.

US Treasury yields were slightly lower on Friday, primarily reflecting the falls in equity markets. The US 10 year Treasury yield closed the week at 1.68%, down 1bp on the day but 4bps below its intraday highs. US economic data was a mixed bag, with weaker personal spending but stronger headline durable goods orders. The Atlanta Fed’s GDPNow estimate for Q3 GDP increased from 1.9% to 2.1%, with stronger investment outweighing a softer consumption estimate. Meanwhile, the US core PCE deflator, the Fed’s preferred inflation measure, was 1.8%, in-line with consensus expectations but below the Fed’s 2% target.

FX movements overall were limited, with all the G10 currencies closing within 0.3% of Thursday’s levels. The USD indices we monitor were little changed on Friday, ending the week near multi-year highs.

The GBP was the weakest of the major currencies, down 0.3% to 1.2290, after BoE MPC member Michael Saunders said the Bank might need to cut rates even if a no-deal Brexit could be avoided. Saunders’ view was in line with the latest BoE minutes, although the market took note of his comments given he has been one of the more hawkish members of the committee for some time. The market fully prices a cut by the BoE in August next year. On Brexit, the BBC reported that the government intended to put out “concrete proposals” for its Brexit solution this week, likely after the Conservative party conference is concluded.

The NZD traded a very narrow 0.6279 - 0.6310 range on Friday, ending the week just under 0.63. There was little reaction to the ANZ consumer confidence survey on Friday,
which fell to its lowest level in four years. Of more importance will be the QSBO business survey, which is released tomorrow (the ANZ survey is released this afternoon). The NZD was the best performing of the G10 currencies on the week – 0.6% stronger despite a broad-based rise in the USD – likely driven, in large part, by short covering. CTFC data released over the weekend revealed that non-commercial (i.e. speculative) investors had increased their net short position in the NZD to a record 39,598 contracts, equivalent to a notional value of around US$2.5bn, as of last Tuesday.

It’s a big week ahead. The RBA meeting is tomorrow and our NAB colleagues, along with a large majority of the economics community, are looking for a 25bp cut to 0.75%. The market prices around a 72% probability of a rate cut. The Chinese PMIs (both the official and Caixin versions) are released today ahead of the Golden Week holidays between 1st to 7th October. The US ISM surveys are mid-week (the manufacturing survey is expected to nudge back above the 50 mark) and nonfarm payrolls are Friday night. Also of note, the WTO is expected rule this week in favour of the US imposing tariffs on the EU for around $8bn due to illegal state aid provided to Airbus, in what has been a long-running battle. The US has already published a list of goods it is intends to target with tariffs, depending on the amount ruled by the WTO.

nick.smyth@bnz.co.nz

Coming Up

<table>
<thead>
<tr>
<th>Foreign Exchange</th>
<th>Other FX</th>
<th>Equities</th>
<th>Commodities**</th>
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<tbody>
<tr>
<td><strong>Indicative overnight ranges (</strong>)**</td>
<td>NZD: 0.6296</td>
<td>S&amp;P 500: 2,962</td>
<td>Oil (Brent): 61.91</td>
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<td>AUD: 0.6764</td>
<td>Dow: 26,820</td>
<td>Oil (WTI): 55.91</td>
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<td>EUR: 1.0940</td>
<td>Nasdaq: 7,940</td>
<td>Gold: 1499.1</td>
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<td>GBP: 1.2292</td>
<td>SIA50: 3,546</td>
<td>HRC steel: 526.0</td>
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<td>JPY: 107.92</td>
<td>FTSE: 7,426</td>
<td>CRB: 175.7</td>
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<td>CAD: 1.3247</td>
<td>DAX: 12,381</td>
<td>Wheat Chic.: 450.8</td>
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<td><strong>Interest Rates</strong></td>
<td>NZD/AUD: 0.9308</td>
<td>CAC 40: 5,641</td>
<td>Sugar: 11.53</td>
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<td>NZD/EUR: 0.5755</td>
<td>Nikkei: 21,879</td>
<td>Cotton: 59.82</td>
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<td>NZD/GBP: 0.5122</td>
<td>Shanghai: 2,932</td>
<td>Coffee: 100.9</td>
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<td>NZD/CAD: 0.8340</td>
<td>ASX 200: 6,716</td>
<td>Wm’r Powder: 3100.0</td>
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<td>NZ TWI: 70.44</td>
<td>NZX 50: 10,837</td>
<td><strong>Australian Futures</strong></td>
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<tr>
<td><strong>Rates</strong></td>
<td>NZ Building permits (m/m%) Aug -1.3</td>
<td>3 year bond: 99.32</td>
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<td></td>
<td>NZ Industrial production (m/m%) Aug P -0.5</td>
<td>10 year bond: 99.05</td>
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<td>NZ ANZ activity outlook (net%) Sep -0.5</td>
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<td>NZ ANZ business confidence (net%) Sep -0.5</td>
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<td>CH Manufacturing PMI Sep 49.6</td>
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<td>CH Non-manufacturing PMI Sep 53.9</td>
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<td>CH Caixin PMI manufacturing Sep 50.2</td>
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<td>CH Unemployment rate (%) Sep 5.0</td>
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<td>CH Unemployment rate (%) Aug 7.5</td>
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<td>GE CPI EU harmonised (y/y%) Sep 1.0</td>
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<td>US MNI Chicago PMI Sep 50</td>
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<td><strong>Period Cons. Prev. NZT</strong></td>
<td><strong>Price</strong></td>
<td>Last</td>
<td>Net Day</td>
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