

31 August 2018



Events Round-Up

NZ: Dwelling consents (m/m%), Jul: -10.3 vs. -8.2 prev.

NZ: ANZ activity outlook, Aug: 3.8 vs. 3.8 prev.

NZ: Business confidence, Aug: -50.3 vs. -44.9 prev.

AU: Private capex (q/q%), Q2: -2.5 vs. 0.6 exp.

AU: Building approvals (m/m%), Jul: -5.2 vs. -2.0 exp.

GE: Unemployment rate (%), Aug: 5.2 vs. 5.2 exp.

EC: Economic confidence, Aug: 111.6 vs. 111.9 exp.

GE: CPI EU Harmonised (y/y%), Aug: 1.9 vs. 2.1 exp.

CA: GDP (m/m%), Jun: 0.0 vs. 0.1 exp.

US: Core PCE deflator (y/y%), Jul: 2.0 vs. 2.0 exp.

Good Morning

Weaker NZ business confidence data and another bout of emerging market currency weakness sees the NZD the weakest of the majors, with AUD and CAD underperforming as well. Global yields are lower, supported by a mild risk-off tone and softer German inflation data.

Another wave of selling in emerging markets currencies has been evident, this time Argentina leading the way. The Argentine peso faced further downward pressure after President Macri's surprise decision to ask IMF to speed up the release of its \$50bn bailout package, with even a hike in interest rates to 60% not stemming the depreciation. India's rupee, Indonesia's rupiah and the Brazilian real have all fallen to fresh multi-year lows, while Turkey's Lira has also come under attack again.

Against that backdrop, a risk-off tone has developed that sees JPY, CHF and the USD performing the best and the commodity currencies at the bottom end of the leaderboard – all three NZD, AUD, and CAD have also had weaker domestic data to contend with that have added to their weakness.

In NZ's case, the ANZ business outlook survey showed confidence lurching down to a fresh low, a level not seen since the global financial crisis. Investment and employment intentions also fell to fresh lows, while the key own-activity indicator was flat at a sub-par level. The data followed a double-digit fall in dwelling consents reported earlier in the day. While the business survey highlights some current or near-term growth vulnerability

(the indicators are more coincident than leading) we still think that the economy is performing better than they suggest.

As the data has followed the RBNZ's more dovish-than-expected assessment of the outlook earlier this month, the market's reaction was to sell down the NZD and price in additional easing into the curve. The OIS curve now prices a near-50% chance of a 25bp cut in the OCR in a year's time. We saw a 5-6bps fall across the swaps and government curve, reflecting the increased chance of easier monetary policy. The 2-year swap rate closed back below 2%, while 5-10 year rates reached fresh multi-year lows. While the direction of the move seems fair, we see the chances of the Bank cutting rates over the near-term as very small.

The NZD fell by about 25pips on the release of the survey, with the weaker emerging market backdrop adding to the NZD's woes through to the local close of around 0.6655. The currency is trading near its lows for the session of 0.6635, with Bloomberg reporting that Trump is ready to quickly move on imposing tariffs on a further \$200b of Chinese imports after the public consultation period ends 5 September. He is said to back fresh tariffs as early as next week. This limits any possible recovery in the NZD in the near term and indeed the greater near-term threat is further weakness when (if?) Trump goes ahead and upps the ante on tariffs.

AUD and CAD have been inflicted by the same risk-off tone around emerging markets, but weaker capex and building approvals data in Australia and softer GDP data in Canada have added to the mix. The NZD has, if anything, gained a little ground on these crosses in overnight trading to be at 0.9150 and 0.8625 respectively. The tone surrounding a new possible NAFTA deal has become increasingly optimistic as the US and Canada approach a US deadline to reach a deal by the end of this week.

In other news, the US core PCE deflator for July came in at 2.0% y/y, as expected, while German CPI inflation missed to the downside, setting the scene for a possible undershoot of expectations when core euro-area CPI inflation is released tonight. This sees EUR down 0.4% to 1.1660 and Germany's 10-year rate down 6bps to 0.34%. That, as well as the softer risk appetite backdrop, sees US Treasuries down 2-3bps across the curve.

In today's session we'll be watching NZ consumer confidence to see if it falls any further, although it remains

at a much healthier level than business confidence. China PMI data are expected to show some slippage while, as mentioned, there's a reasonable chance that euro area CPI data comes in lower than expectations surveyed earlier in the week.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	ANZ Consumer confidence	Aug		118.4	10:00
UK	GfK consumer confidence	Aug	-10	-10	11:01
JN	Tokyo CPI ex-fresh food(y/y%)	Aug	0.8	0.8	11:30
JN	Industrial production (m/m%)	Jul	0.2	-1.8	11:50
CH	Non-manufacturing PMI	Aug	53.8	54.0	13:00
CH	Manufacturing PMI	Aug	51.0	51.2	13:00
EC	Unemployment rate (%)	Jul	8.2	8.3	21:00
EC	Core CPI (y/y%)	Aug	1.1	1.1	21:00
US	Chicago PMI	Aug	63.0	65.5	01:45
US	U. of Mich. cons. sent.	Aug	95.5	95.3	02:00

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	0.6640	-1.1	0.6635	0.6669	CHF	0.9695	-0.1	S&P 500	2,902	-0.4	18.1	Oil (Brent)	77.77	+0.8
AUD	0.7256	-0.8	0.7250	0.7303	SEK	9.130	-0.1	Dow	25,976	-0.6	18.7	Oil (WTI)	70.24	+1.0
EUR	1.1663	-0.4	1.1642	1.1718	NOK	8.347	+0.2	Nasdaq	8,087	-0.3	27.0	Gold	1201.5	-0.4
GBP	1.3011	-0.1	1.2985	1.3043	HKD	7.849	+0.0	Stoxx 50	3,431	-0.7	0.8	HRC steel	861.0	-0.2
JPY	111.04	-0.6	111.00	111.72	CNY	6.845	+0.3	FTSE	7,516	-0.6	2.0	CRB	192.8	-0.1
CAD	1.2991	+0.7			SGD	1.368	+0.2	DAX	12,494	-0.5	4.1	Wheat Chic.	535.0	-1.2
NZD/AUD	0.9151	-0.4			IDR	14,680	+0.2	CAC 40	5,478	-0.5	8.3	Sugar	10.57	+1.9
NZD/EUR	0.5693	-0.8			THB	32.79	+0.3	Nikkei	22,870	+0.1	16.4	Cotton	82.42	-1.1
NZD/GBP	0.5103	-1.0			KRW	1,109	-0.1	Shanghai	2,738	-1.1	-18.5	Coffee	102.7	-0.2
NZD/JPY	73.73	-1.7			TWD	30.69	-0.1	ASX 200	6,352	-0.0	11.2	WM powder	2850.0	+0.0
NZD/CAD	0.8626	-0.5			PHP	53.52	+0.1	NZX 50	9,340	-0.2	19.5	Australian Futures		
NZ TWI	72.10	-0.9										3 year bond	97.985	0.02
												10 year bond	97.47	0.04
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	2.84	2.93	USD	2.86	-0.03	NZGB 6 05/15/21	1.69	-0.06	1 year	1.93	-0.03	
AUD	1.50	1.95	2.00	2.73	AUD	2.57	0.02	NZGB 5 1/2 04/15/23	1.92	-0.06	2 year	1.99	-0.05	
NZD	1.75	1.91	2.00	2.83	NZD	2.38	-0.06	NZGB 2 3/4 04/15/25	2.19	-0.06	5 year	2.32	-0.06	
EUR	0.00	0.06	-0.14	0.89	GER	0.35	-0.06	NZGB 4 1/2 04/15/27	2.38	-0.06	7 year	2.57	-0.06	
GBP	0.75	0.80	1.12	1.56	GBP	1.46	-0.03	NZGB 3 04/20/29	2.54	-0.06	10 year	2.84	-0.05	
JPY	-0.05	-0.03	0.05	0.32	JPY	0.11	0.01	NZGB 3 1/2 04/14/33	2.72	-0.06	15 year	3.09	-0.05	
CAD	1.50	1.17	2.44	2.66	CAD	2.27	-0.05	NZGB 2 3/4 04/15/37	2.87	-0.06				

* 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 07:00

Source: Bloomberg

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