

31 October 2018



Events Round-Up

GE: Unemployment rate, Oct: 5.1 vs. 5.1 exp.

EC: GDP (q/q%), Q3: 0.2 vs. 0.4 exp.

EC: GDP (y/y%), Q3: 1.7 vs. 1.8 exp.

GE: CPI (y/y%), Oct: 2.4 vs. 2.4 exp.

US: Conference board consumer confidence, Oct: 138 vs. 136 exp.

Good Morning

US equities have moved modestly higher overnight, although the market remains volatile and risk sentiment cautious. Facebook's earnings later this morning will be a key focus. The NZD and AUD have moved higher over the past 24 hours after President Trump discussed the possibility of a "great deal" with China.

It has been a volatile last 24 hours for equity markets. Shortly after we sent this report yesterday, Bloomberg reported that President Trump was prepared to go ahead with tariffs on all Chinese imports if talks with President Xi at the G20 late next month fail to reach an agreement. While most market participants probably wouldn't have been surprised by the story, it nonetheless appeared to be the trigger for a sharp move lower in US equities into the close. The S&P500, which had opened almost 2% higher yesterday, closed down 0.67%.

US equities have managed to recover some of those losses overnight, with the S&P500 +0.3% and NASDAQ +0.2% as we write (although, like yesterday, equity indices have pared early-session gains). The 10 year US Treasury yield has nudged 1bp higher, in sympathy with the move in equities. The backdrop remains volatile, with news reports citing various worries about US-China trade wars, the upcoming US mid-term elections, Fed rate rises and higher bond yields, and a possible slow-down in future earnings growth. Facebook's earnings results, released after the bell today, will be a key focus for the equity market.

The USD has continued to extend its recent gains, with the Bloomberg DXY making a new 18 month high (+0.2%) and the DXY dollar index (+0.4%) sitting just below its recent highs. The relative strength of the US economy, and ever expanding interest rate differential, has been supportive of recent strength in the USD. Overnight, US consumer confidence hit a new post-2000 high while

Eurozone GDP slowed to 1.7%, slightly below expectations. The EUR is hovering around 1.1350, near its recent multi-year lows. The GBP has underperformed on the day, down 0.7% to below 1.27, with the risk of a no-deal Brexit continuing to hang over the market. S&P overnight noted that the risk of a no-deal outcome had increased sufficiently to become a ratings consideration, and the ratings agency forecast a moderate recession in the event of no-deal. The JPY has also fallen 0.5% against a slightly more firm tone to risk appetite.

Despite the broader backdrop of USD strength, the NZD and AUD have moved higher over the past 24 hours. Yesterday afternoon, President Trump gave an interview with Fox News in which he predicted a "great deal" with China on trade. While Trump added that he didn't think China was "ready" to reach a deal yet, the NZD and AUD immediately moved higher on those comments and both currencies have extended those moves a bit further in the overnight session. The AUD is up 0.6% to 0.7100 over the past 24 hours while the NZD is up 0.5% to 0.6550, with market positioning (squaring of short NZD and AUD positions) likely exacerbating the moves higher. The CNY itself was relatively unmoved by the Trump comments and continues to sit just under the psychologically important 7.0 level against the USD.

The NZD has moved higher on all the major crosses with the exception of the NZD/AUD. NZD/EUR has moved up to 0.5775 while NZD/GDP has moved to 0.5160 – both at their highest levels since late August.

There is a lot to digest over the coming 24 hours. After the US market close, Facebook will release its earnings report. Locally, the ANZ business survey is released while CPI is released in Australia. Focus will be on the core measures of inflation, where NAB is slightly below consensus, looking for a 0.3% quarterly increase on both core measures (0.4% expected).

Overnight, Eurozone core CPI is released ahead of the US ADP employment survey, which will have some bearing on expectations for payrolls on Friday, and the employment cost index (a US wage growth measure).

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Building Permits MoM	Sep		7.8	10:45
NZ	ANZ Activity Outlook	Oct		7.8	13:00
NZ	ANZ Business Confidence	Oct		-38.3	13:00
AU	CPI YoY	3Q	1.9	2.1	13:30
AU	CPI Trimmed Mean YoY	3Q	1.9	1.9	13:30
AU	CPI Weighted Median YoY	3Q	1.9	1.9	13:30
CH	Non-manufacturing PMI	Oct	54.6	54.9	14:00
CH	Manufacturing PMI	Oct	50.6	50.8	14:00
EC	CPI Core YoY	Oct A	1.1	0.9	23:00
US	ADP Employment Change	Oct	190	230	01:15
CA	GDP YoY	Aug	2.4	2.4	01:30
US	Employment Cost Index	3Q	0.7	0.6	01:30
US	Chicago Purchasing Manager	Oct	60	60.4	02:45

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	0.6551	+0.4	0.6539	0.6573	CHF	1.0050	+0.3		S&P 500	2,654	+0.4	3.1	Oil (Brent)	75.69	-2.1
AUD	0.7099	+0.6	0.7084	0.7122	SEK	9.181	+0.3		Dow	24,591	+0.7	5.3	Oil (WTI)	66.02	-1.5
EUR	1.1343	-0.3	1.1346	1.1388	NOK	8.421	+0.3		Nasdaq	7,063	+0.3	5.4	Gold	1224.9	-0.3
GBP	1.2700	-0.7	1.2698	1.2811	HKD	7.845	+0.0		Stoxx 50	3,147	-0.2	-14.1	HRC steel	831.0	+0.5
JPY	112.87	+0.4	112.64	112.98	CNY	6.967	+0.1		FTSE	7,036	+0.1	-6.0	CRB	191.7	-0.9
CAD	1.3144	+0.1			SGD	1.385	+0.1		DAX	11,287	-0.4	-14.7	Wheat Chic.	516.5	-1.8
NZD/AUD	0.9228	-0.2			IDR	15,224	+0.0		CAC 40	4,979	-0.3	-9.4	Sugar	13.32	-1.0
NZD/EUR	0.5775	+0.7			THB	33.28	-0.0		Nikkei	21,457	+1.5	-2.5	Cotton	76.79	-0.4
NZD/GBP	0.5158	+1.2			KRW	1,139	-0.2		Shanghai	2,568	+1.0	-24.3	Coffee	112.4	-1.6
NZD/JPY	73.94	+0.9			TWD	30.98	-0.0		ASX 200	5,805	+1.3	-1.8	WM powder	2655.0	-0.2
NZD/CAD	0.8611	+0.5			PHP	53.58	-0.1		NZX 50	8,648	+0.4	6.2	Australian Futures		
NZ TWI	72.35	+0.4											3 year bond	97.945	-0.03
													10 year bond	97.39	-0.03
Interest Rates					NZ Government Bonds				NZ Swap Yields						
	Rates				Benchmark 10 Yr Bonds				Last						
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day									
USD	2.25	2.53	3.03	3.17	USD	3.10	0.02	NZGB 6 05/15/21	1.76	0.01	1 year	1.94	0.00		
AUD	1.50	1.92	2.01	2.80	AUD	2.58	0.01	NZGB 5 1/2 04/15/23	1.93	0.01	2 year	2.00	0.01		
NZD	1.75	1.90	2.02	2.79	NZD	2.36	0.00	NZGB 2 3/4 04/15/25	2.16	0.01	5 year	2.31	0.00		
EUR	0.00	0.06	-0.12	0.94	GER	0.37	-0.01	NZGB 4 1/2 04/15/27	2.36	0.00	7 year	2.53	0.01		
GBP	0.75	0.81	1.09	1.55	GBP	1.40	0.00	NZGB 3 04/20/29	2.51	0.00	10 year	2.79	0.01		
JPY	-0.07	-0.09	0.05	0.32	JPY	0.12	0.01	NZGB 3 1/2 04/14/33	2.69	0.00	15 year	3.04	0.01		
CAD	1.75	1.17	2.64	2.86	CAD	2.42	0.02	NZGB 2 3/4 04/15/37	2.83	-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 07:22

Source: Bloomberg

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