

7 November 2018



Events Round-Up

AU: RBA cash rate target (%), Nov: 1.5 vs. 1.5 exp.

GE: Factory orders (m/m%), Sep: 0.3 vs. -0.5 exp.

EC: Markit composite PMI, Oct: 53.1 vs. 52.7 exp.

NZ: GDT dairy auction avg winning price: -2.0%

Good Morning

Markets are trading water ahead of today's US mid-term elections with volumes well below normal. GBP has shown another modest gain to make it the strongest currency over the past 24 hours on a day where nothing much has happened. US equities and Treasury rates are slightly higher.

It is tempting to sign off there, with not a lot to add today as the markets await the US mid-term elections. Results should start coming through this afternoon NZ time, where it is widely believed that the Republicans will lose the House to the Democrats but retain the Senate. Electionbettingodds.com puts the probability of the former at 70% and the latter at 84%.

A divided political landscape is seen as not a bad outcome. Republicans would lose the ability to push through domestic policy like further tax cuts and changes to healthcare but President Trump would continue to have significant leeway on foreign policy and trade. Historically, US equities have performed well after mid-term elections and the result the market expects would provide some fuel to the incipient recovery in equity markets seen after the recent sharp correction. In the current election cycle Trump remains a wildcard and his behaviour post the elections remains unpredictable.

There hasn't been much economic news so far this week. German factory orders were stronger than expected in September, showing a monthly increase that has been rare to see so far this year. The Economy Ministry said that the holdup in the auto industry is being slowly resolved, and there are signs manufacturing growth will regain strength in Q4. Final euro-area PMI data came in a little higher than the provisional estimates, still consistent with slower growth momentum.

The latest GDT dairy auction showed a 2% fall in average pricing. Our resident "cow whisperer" Doug Steel called for a modest fall in pricing, so we'll take that as an in-line

result. Whole milk powder prices fell by 2.9%, alongside a fall in most products, with a 1.2% rise in skim milk powder going against the grain.

The NZD sits this morning at 0.6670, about 10pips higher than this time yesterday, and a small fall during local trading hours more than offset by a stronger overnight performance – the same pattern as the previous session. The overnight high was 0.6684.

The AUD is fairly flat as well and is currently 0.7220. The RBA's policy statement came and went with little market reaction, with the Bank keeping the important final paragraph unchanged. The Bank indicated a small upgrade to its growth and inflation forecasts, with full forecasts published in Friday's Statement on Monetary Policy. Policy is expected to remain on hold for some time yet, with a bias towards tightening in the distant future.

GBP has been the biggest mover of the day, up 0.4% from this time yesterday to 1.3080. The UK Cabinet met to discuss Brexit, but nothing has yet been agreed and a spokesman for the PM said that there is significant further work to do to resolve the outstanding issues. Still, the market is taking a more positive view on the likely outcome, with both the UK and EU seemingly wanting to wrap up an agreement quickly, perhaps sometime over the next week or two. The Irish border issue remains the sticking point and both parties look to be edging towards a viable solution.

US Treasury yields are slightly higher across the curve in the order of 1-2bps, with the 10-year rate sitting at 3.22%. Clearance of today's risk event, the mid-term elections, could see a further upside bias, albeit the market is likely to continue to tread carefully ahead of the next FOMC statement on Friday morning NZ time. There was little change in NZ rates yesterday.

Ahead of the US election results streaming in later this afternoon, NZ labour market data today are expected to show the unemployment rate ticking down, with no smoking gun expected in the wage inflation data. Coming one day ahead of the RBNZ's MPS, market reaction should be fairly well contained. Later today, the market will be interested in how much China's foreign reserves will drop, an indicator of how much intervention the PBoC did in October.

jason.k.wong@bnz.co.nz

Coming Up

| | | Period | Cons. | Prev. | NZT |
|----|----------------------------------|--------|-------|-------|-------|
| NZ | Unemployment rate (%) | Q3 | 4.4 | 4.5 | 10:45 |
| NZ | Employment (q/q%) | Q3 | 0.5 | 0.5 | 10:45 |
| NZ | LCI pvt wages ex overtime (q/q%) | Q3 | 0.5 | 0.6 | 10:45 |
| NZ | QES avg hrly earnings (q/q%) | Q3 | 0.8 | 0.2 | 10:45 |
| NZ | RBNZ 2yr inflation expectations | Q4 | | 2.04 | 15:00 |
| CH | Foreign Reserves | Oct | 3059 | 3087 | |
| GE | Industrial production (m/m%) | Sep | 0.1 | -0.3 | 20:00 |
| EC | Retail sales (m/m%) | Sep | 0.1 | -0.2 | 23:00 |

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 | 0.6669 | +0.2 | 0.6646 | 0.6684 | CHF | 1.0037 | -0.1 | S&P 500 | 2,750 | +0.4 | 6.1 | Oil (Brent) | 71.71 | -2.0 |
| AUD | 0.7219 | +0.1 | 0.7207 | 0.7241 | SEK | 9.061 | +0.1 | Dow | 25,606 | +0.6 | 8.7 | Oil (WTI) | 61.75 | -2.2 |
| EUR | 1.1416 | +0.1 | 1.1392 | 1.1438 | NOK | 8.369 | +0.1 | Nasdaq | 7,381 | +0.7 | 8.8 | Gold | 1228.0 | -0.3 |
| GBP | 1.3083 | +0.3 | 1.3021 | 1.3096 | HKD | 7.833 | +0.0 | Stoxx 50 | 3,207 | -0.3 | -12.9 | HRC steel | 823.0 | -0.1 |
| JPY | 113.46 | +0.2 | 113.10 | 113.46 | CNY | 6.919 | -0.1 | FTSE | 7,041 | -0.9 | -6.9 | CRB | 190.9 | -0.9 |
| CAD | 1.3142 | +0.2 | | | SGD | 1.374 | -0.1 | DAX | 11,484 | -0.1 | -14.7 | Wheat Chic. | 528.5 | +1.1 |
| NZD/AUD | 0.9238 | -0.0 | | | IDR | 14,804 | -1.2 | CAC 40 | 5,075 | -0.5 | -7.8 | Sugar | 13.01 | -1.1 |
| NZD/EUR | 0.5842 | +0.1 | | | THB | 32.93 | -0.0 | Nikkei | 22,148 | +1.1 | -3.4 | Cotton | 77.27 | -2.0 |
| NZD/GBP | 0.5097 | -0.3 | | | KRW | 1,124 | +0.0 | Shanghai | 2,659 | -0.2 | -22.1 | Coffee | 114.1 | -2.6 |
| NZD/JPY | 75.67 | +0.5 | | | TWD | 30.76 | +0.0 | ASX 200 | 5,875 | +1.0 | -2.3 | WM powder | 2720.0 | +2.3 |
| NZD/CAD | 0.8764 | +0.3 | | | PHP | 52.97 | -0.6 | NZX 50 | 8,816 | +0.4 | 9.5 | Australian Futures | | |
| NZ TWI | 73.02 | +0.1 | | | | | | | | | | 3 year bond | 97.855 | -0.01 |
| | | | | | | | | | | | | 10 year bond | 97.27 | 0.00 |
| Interest Rates | | | | | | | | NZ Government Bonds | | | | NZ Swap Yields | | |
| | Rates | | Swap Yields | | Benchmark 10 Yr Bonds | | Last | | | Last | | | | |
| | Cash | 3Mth | 2 Yr | 10 Yr | Last | Net Day | | | | | | | | |
| USD | 2.25 | 2.59 | 3.12 | 3.27 | USD | 3.22 | 0.02 | NZGB 6 05/15/21 | 1.85 | 0.00 | 1 year | 2.00 | 0.00 | |
| AUD | 1.50 | 1.94 | 2.07 | 2.90 | AUD | 2.73 | -0.02 | NZGB 5 1/2 04/15/23 | 2.04 | 0.01 | 2 year | 2.06 | -0.00 | |
| NZD | 1.75 | 1.96 | 2.06 | 2.92 | NZD | 2.48 | 0.00 | NZGB 2 3/4 04/15/25 | 2.28 | 0.00 | 5 year | 2.42 | 0.00 | |
| EUR | 0.00 | 0.06 | -0.12 | 0.98 | GER | 0.43 | 0.01 | NZGB 4 1/2 04/15/27 | 2.48 | 0.00 | 7 year | 2.65 | 0.00 | |
| GBP | 0.75 | 0.84 | 1.20 | 1.68 | GBP | 1.54 | 0.04 | NZGB 3 04/20/29 | 2.64 | 0.00 | 10 year | 2.92 | 0.00 | |
| JPY | -0.07 | -0.09 | 0.04 | 0.32 | JPY | 0.13 | 0.00 | NZGB 3 1/2 04/14/33 | 2.82 | 0.00 | 15 year | 3.18 | 0.00 | |
| CAD | 1.75 | 1.17 | 2.69 | 2.93 | CAD | 2.53 | 0.01 | NZGB 2 3/4 04/15/37 | 2.96 | 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 06:49

Source: Bloomberg

Contact Details

Jason Wong

Senior Markets Strategist
+64 4 924 7652

Nick Smyth

Interest Rate Strategist
+64 4 924 7653

National Australia Bank

Ray Attrill

Head of FX Strategy
+61 2 9237 1848

Rodrigo Catril

Senior FX Strategist
+61 2 9293 7109

Gavin Friend

Senior Market Strategist
+44 20 7710 1588

Skye Masters

Head of Fixed Income Research
+61 2 9295 1196

Alex Stanley

Senior Interest Rate Strategist
+61 2 9237 8154

Analyst Disclaimer: The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Global Markets Division of NAB.

NAB maintains an effective information barrier between the research analysts and its private side operations. Private side functions are physically segregated from the research analysts and have no control over their remuneration or budget. The research functions do not report directly or indirectly to any private side function. The Research analyst might have received help from the issuer subject in the research report.

New Zealand: This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. To the extent that any information or recommendations in this publication constitute financial advice, they do not take into account any person's particular financial situation or goals. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication. **National Australia Bank Limited is not a registered bank in New Zealand.**

USA: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.