

9 November 2018



Events Round-Up

NZ: RBNZ official cash rate (%), Nov: 1.75 vs. 1.75 exp.

CH: Trade Balance (\$b), Oct: 34.0 vs. 35.1 exp.

CH: Imports (\$b, y/y%), Oct: 21.4 vs. 14.5 exp.

CH: Exports (\$b, y/y%), Oct: 15.6 vs. 11.7 exp.

Good Morning

Financial markets have been quiet ahead of the FOMC statement due 8am NZ time. Overnight currency moves have been insignificant, US equities are flat and US Treasury rates are little changed.

The NZD sits this morning at 0.6780, and has traded a narrow range over the past 24 hours, with little market reaction to the RBNZ MPS yesterday morning, apart from a brief algo-driven spike up to around 0.6815 on the release. As expected, the RBNZ's message was "on-hold" policy through 2019 and into 2020, although the Bank deleted the reference from previous statements that the direction of the next OCR move could be up or down. The underlying text and forecasts of the MPS looked to convey a more hawkish bias compared to August, with upside risks to inflation and with employment already near its "maximum sustainable level".

The Bank's near-term inflation forecasts were revised higher to just over 2% and the 3-years ahead CPI forecasts showed inflation up as high as 2.3%. Instead of shifting the OCR track higher to bring medium-term inflation projections back down to 2%, the Bank opted to leave the OCR track unchanged from the August projections, and the forecasts exclude the much stronger labour market figures reported a day earlier. While the Bank wasn't ready today to admit an explicit tightening bias, the numbers are clear for all to see. The market has recently been pricing out rate cuts from the OIS curve and factoring in the chance of rate hikes as soon as the second half of next year, in anticipation of an eventual capitulation by the Bank, and we concur with that view. NZ rates were higher across the curve yesterday, but largely reflecting global forces – the MPS effect was only a modest factor in the move, after the significant sell-off the previous session post the strong labour market report. NZ government bonds were up around 4bps for the day across much of the curve. The 2-year swap rate rose by 3bps to a fresh high of 2.19%, while the 5-10 year swap rates were up 6bps.

In overnight news, the European Commission and Italy remain at loggerheads over the Italian Budget. The EC published forecasts of lower Italian GDP growth which would mean the 2019 deficit blowing out to 2.9% of GDP, close to the EU's "limit" of 3%. Italy's Finance Minister Tria responded that the figures reflected "inadequate and partial analysis" and said that the government was committed to a deficit of no more than 2.4%, which is still too high for the EC's liking. Italy's 10-year rate was up 6bps to 3.39%, well off its October peak but still uncomfortably high. Italian's budget woes remain a restraining force on EUR. After trading as high as 1.1500 overnight, it is back down approaching 1.1400, flat for the day. NZD/EUR is flat at 0.5940 but is up over 6% over the past month, reflecting the NZD recovery and EUR's performance held back by Italy's woes, amongst other factors.

There's not much to say about the other major currencies, other than the USD has a modest upside bias, reversing the losses seen in the aftermath of the US mid-term elections. JPY has been the softest of the majors, with USD/JPY up 0.3% to 113.90. NZD/JPY has been re-acquainted with a 77 handle, something not seen since June.

Yesterday, China's import and export growth figures for October were stronger than market estimates, allaying some concerns that global growth is taking a dive.

Ahead of the FOMC release this morning, US Treasury rates have traded a narrow range, with the 10-year rate stuck between 3.205-3.235%. We expect little change from the September Statement, which will likely signal further gradual increases in the Fed Funds rate, given the backdrop of a tightening labour market. There seems to be more interest in what the minutes will say when they are released in several weeks' time, with some discussion expected on the balance sheet and interest rate on excess reserves.

The economic calendar is full with NZ electronic card transactions, which have recently been strong, and updated forecasts alongside the RBA's statement on monetary policy. Chinese inflation data and UK GDP data are the other highlights.

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Coming Up

		Period	Cons.	Prev.	NZT
US	FOMC Fed funds range (%)	Nov	2-2.25	2-2.25	08:00
NZ	Card spending retail (m/m%)	Oct	0.6	1.1	10:45
AU	RBA statement on monetary policy				13:30
NZ	NZ to sell 250m 2029 bonds				14:05
CH	PPI (y/y%)	Oct	3.3	3.6	14:30
CH	CPI (y/y%)	Oct	2.5	2.5	14:30
UK	Trade balance (£m)	Sep	-1500	-1274	22:30
UK	Industrial production (m/m%)	Sep	-0.1	0.2	22:30
UK	GDP (m/m%)	Sep	0.1	0.0	22:30
UK	GDP (q/q%)	Q3	0.6	0.4	22:30
US	PPI ex food and energy (y/y%)	Oct	2.3	2.5	02:30
US	U. of Mich. consumer sent.	Nov	98.0	98.6	04:00

Source: Bloomberg, BNZ.

Foreign Exchange						Equities				Commodities**				
Indicative overnight ranges (*)					Other FX		Major Indices				Price			
	Last	% Day	Low	High		Last	% Day			Last	Net Day			
NZD	0.6778	-0.1	0.6770	0.6797	CHF	1.0042	+0.2	S&P 500	2,814	+0.0	8.5	Oil (Brent)	70.66	-2.0
AUD	0.7282	+0.1	0.7272	0.7302	SEK	8.997	-0.3	Dow	26,248	+0.3	11.4	Oil (WTI)	60.62	-1.7
EUR	1.1402	-0.2	1.1403	1.1447	NOK	8.356	+0.1	Nasdaq	7,549	-0.3	11.2	Gold	1224.3	-0.3
GBP	1.3105	-0.2	1.3088	1.3150	HKD	7.828	-0.0	Stoxx 50	3,238	-0.3	-11.4	HRC steel	816.0	-0.1
JPY	113.92	+0.4	113.58	113.93	CNY	6.935	+0.2	FTSE	7,141	+0.3	-5.2	CRB	189.5	-0.9
CAD	1.3113	+0.0			SGD	1.373	+0.1	DAX	11,527	-0.4	-13.9	Wheat Chic.	515.5	-1.3
NZD/AUD	0.9308	-0.2			IDR	14,539	-0.3	CAC 40	5,131	+0.1	-6.2	Sugar	12.78	-1.8
NZD/EUR	0.5945	+0.1			THB	32.95	+0.4	Nikkei	22,487	+1.8	-1.7	Cotton	79.83	+1.1
NZD/GBP	0.5172	+0.1			KRW	1,117	-0.6	Shanghai	2,636	-0.2	-23.1	Coffee	116.1	+0.3
NZD/JPY	77.21	+0.2			TWD	30.66	-0.2	ASX 200	5,928	+0.5	-2.0	WM powder	2615.0	-2.2
NZD/CAD	0.8888	-0.1			PHP	52.73	-0.3	NZX 50	8,896	+0.5	10.9	Australian Futures		
NZ TWI	74.10	-0.1										3 year bond	97.79	-0.02
												10 year bond	97.21	-0.03
Interest Rates						NZ Government Bonds				NZ Swap Yields				
	Rates		Swap Yields		Benchmark 10 Yr Bonds		NZ Government Bonds			NZ Swap Yields				
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day		Last		Last				
USD	2.25	2.60	3.14	3.28	USD	3.22	-0.01	NZGB 6 05/15/21	1.94	0.02	1 year	2.04	0.02	
AUD	1.50	1.94	2.11	2.96	AUD	2.76	0.03	NZGB 5 1/2 04/15/23	2.17	0.04	2 year	2.18	0.03	
NZD	1.75	1.98	2.20	3.11	NZD	2.61	0.04	NZGB 2 3/4 04/15/25	2.41	0.04	5 year	2.61	0.06	
EUR	0.00	0.06	-0.11	1.00	GER	0.46	0.01	NZGB 4 1/2 04/15/27	2.61	0.04	7 year	2.84	0.06	
GBP	0.75	0.85	1.24	1.72	GBP	1.57	0.03	NZGB 3 04/20/29	2.77	0.04	10 year	3.09	0.06	
JPY	-0.07	-0.10	0.04	0.32	JPY	0.12	-0.00	NZGB 3 1/2 04/14/33	2.96	0.04	15 year	3.34	0.05	
CAD	1.75	1.17	2.70	2.94	CAD	2.54	0.00	NZGB 2 3/4 04/15/37	3.10	0.04				

* 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 06:40

Source: Bloomberg

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