

9 October 2018



Events Round-Up

CH: Caixin PMI services, Sep: 53.1 vs. 51.4 exp.

GE: Industrial production (m/m%), Aug: -0.3 vs. 0.3 exp.

Good Morning

The new week has begun as last week ended, with risk sentiment souring, albeit with holidays across the US, Canada and Japan helping contain market volatility. Under the circumstances the NZD and AUD have held up well, but this follows the significant falls for both currencies last week.

As the new week began all eyes turned to China, following its "Golden Week" holiday and the weekend move to cut the reserve requirement ratio for banks by 100bps, a further easing in monetary policy as growth headwinds develop in the face of escalating tensions with the US. In the event China's CSI 300, a composite of the Shanghai and Shenzhen exchanges, fell by a chunky 4.3%, some of this reflecting the catch-up to weaker global equities last week.

The PBoC weakened the yuan's daily reference rate by less than expected, but the market has continued to put more downward pressure on the currency since the local close. Bloomberg reported that a senior Treasury official said that the Trump administration is concerned about the Chinese Yuan's depreciation. Treasury Secretary Mnuchin is facing pressure from the White House to name China as a currency manipulator in the semi-annual report on America's trading partners' currencies due later this month. This would be ironic as the US policies including trade tariffs have been the key source of downward pressure on CNY this year. USD/CNH and USD/CNY have both blasted up through the 6.93 mark, up 0.6% and 0.9% respectively for the day.

Pressure on CNY would normally be a source of downward pressure for the NZD and AUD but as we noted yesterday, the more than 2½% falls in these currencies last week pre-empted the weaker CNY move. The NZD hit a fresh multi-year low of 0.6425 reflecting market nerves just ahead of the CNY fix, but it recovered thereafter and in a low volatility session has generally hovered around the 0.6440 mark, close to where it began the week. The AUD found support after reaching a fresh low just above 0.7040 and sits this morning at 0.7070, with NZD/AUD fairly steady at 0.9120.

The NZD and AUD have held up well considering much of

the other news to report is negative. While the US bond market is closed for the holiday, the US equity market is open, with the S&P500 currently down 0.7% and the Nasdaq is down 1.3%, on track for its third consecutive daily fall of more than 1%. The VIX index shot up to 18.4 but is now below 18. The Euro Stoxx 600 fell by 1.1%, with Italy's key benchmark index down 2.4% to an 18-month low.

Italy remains a worry for markets. Tensions flared up after the populist government leaders responded defiantly to a letter from EU officials to finance minister Tria, warning that the budget is a "source of serious concern". A showdown is looming between Italy and the EU as they prepare for the next battle over the 2019 budget, with the plan for a 2.4% of GDP deficit in breach of the EU rules. Italy 10-year yields rose up through the 3.5% mark for the first time since 2014, up 14bps for the day to 3.56%. The tipping point before Italy heads into an unsustainable debt spiral is probably close to the 4% mark. Against this backdrop, EUR is down 0.4% to 1.1480 after finding some support at 1.1460. NZD/EUR is up 0.5% to 0.5615.

GBP has followed a similar path and is down 0.3% to 1.3075 and NZD/GBP is up to 0.4930. Negotiations over Brexit are at a critical juncture ahead of the October EU summit mid next week.

JPY is the strongest of the majors, reflecting the risk-off tone. USD/JPY is down 0.7% to 112.90 while NZD/JPY is threatening the August and September support level of 72.3, as it has blasted down through the 73 mark this morning.

While the US bond market is closed, Treasury futures are trading and show the implied 10-year rate down a few basis points. The local curve bear steepened yesterday as it reflected the move in Treasuries post Friday's payrolls report. The 2-year swap rate rose by 1bp to 2.03% while the 10-year rate rose by 4bps to 2.94%. The pressure will be on some unwinding of this move when trading opens today. The data calendar remains light for the next 24 hours.

jason.k.wong@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
AU	NAB business conditions	Sep		15	13:30
US	NFIB small bus. optimism	Sep	108.0	108.8	23:00

Source: Bloomberg, BNZ.

Foreign Exchange						Equities				Commodities**					
Indicative overnight ranges (*)				Other FX		Major Indices			Price						
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day				
NZD	0.6449	+0.1	0.6433	0.6454	CHF	0.9932	+0.1		S&P 500	2,869	-0.7	12.5	Oil (Brent)	83.39	-0.6
AUD	0.7073	+0.3	0.7041	0.7078	SEK	9.102	+0.4		Dow	26,328	-0.3	15.6	Oil (WTI)	73.87	-0.4
EUR	1.1484	-0.3	1.1460	1.1516	NOK	8.283	+0.3		Nasdaq	7,685	-1.2	16.6	Gold	1183.7	-1.5
GBP	1.3078	-0.3	1.3028	1.3116	HKD	7.831	-0.1		Stoxx 50	3,310	-1.1	-8.1	HRC steel	828.0	-0.2
JPY	112.87	-0.7	112.95	113.88	CNY	6.931	+0.9		FTSE	7,233	-1.2	-3.8	CRB	199.2	+0.1
CAD	1.2960	+0.2			SGD	1.385	+0.2		DAX	11,947	-1.4	-7.8	Wheat Chic.	534.3	-1.2
NZD/AUD	0.9118	-0.2			IDR	15,218	+0.2		CAC 40	5,300	-1.4	-1.1	Sugar	12.96	+2.2
NZD/EUR	0.5616	+0.5			THB	32.98	+0.4		Nikkei	23,784	-0.8	14.9	Cotton	76.49	+0.1
NZD/GBP	0.4931	+0.4			KRW	1,132	+0.2		Shanghai	2,717	-3.7	-19.5	Coffee	111.6	+2.8
NZD/JPY	72.79	-0.6			TWD	30.96	+0.4		ASX 200	6,100	-1.4	6.3	WM powder	2670.0	-0.7
NZD/CAD	0.8358	+0.3			PHP	54.22	-0.1		NZX 50	9,147	-0.7	14.2	Australian Futures		
NZ TWI	70.96	+0.2											3 year bond	97.895	0.00
													10 year bond	97.24	0.00

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			
USD	2.25	2.41	3.06	3.26	USD	3.23	0.00	NZGB 6 05/15/21	1.80	0.03	1 year	1.94	0.00
AUD	1.50	1.93	2.02	2.91	AUD	2.77	0.05	NZGB 5 1/2 04/15/23	1.99	0.03	2 year	2.03	0.01
NZD	1.75	1.88	2.03	2.94	NZD	2.47	0.03	NZGB 2 3/4 04/15/25	2.26	0.03	5 year	2.40	0.02
EUR	0.00	0.06	-0.09	1.06	GER	0.53	-0.04	NZGB 4 1/2 04/15/27	2.47	0.03	7 year	2.66	0.03
GBP	0.75	0.80	1.20	1.75	GBP	1.67	-0.05	NZGB 3 04/20/29	2.64	0.04	10 year	2.94	0.04
JPY	-0.06	-0.07	0.06	0.37	JPY	0.16	0.00	NZGB 3 1/2 04/14/33	2.82	0.04	15 year	3.19	0.04
CAD	1.50	1.17	2.66	2.97	CAD	2.60	0.04	NZGB 2 3/4 04/15/37	2.94	0.03			

* 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 06:43

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.