

17 October 2018



## Events Round-Up

NZ: CPI (q/q%), Q3: 0.9 vs. 0.7 exp.  
NZ: CPI (y/y%), Q3: 1.9 vs. 1.7 exp.  
CH: PPI (y/y%), Sep: 3.6 vs. 3.5 exp.  
CH: CPI (y/y%), Sep: 2.5 vs. 2.5 exp.  
UK: ILO unemployment rate (%), Aug: 4.0 vs. 4.0 exp.  
UK: Earnings ex bonuses (3m/y%), Aug: 3.1 vs. 2.9 exp.  
GE: ZEW survey expectations, Oct: -24.7 vs. -12.0 exp.  
NZ: GDT dairy auction avg. winning price: -0.3%  
US: Industrial production (m/m%), Sep: 0.3 vs. 0.2 exp.  
US: NAHB housing market index, Oct: 68 vs. 67 exp.

## Good Morning

The NZD has sustained the gains made after stronger-than-expected CPI data yesterday and heads the daily leaderboard. US and European equity markets show strong gains, while a lack of pulse is evident in bond markets, with UST yields little changed.

The NZD is finding some resistance just under the 0.66 mark this morning. It rose 0.7% immediately after Q3 CPI data were released, showing CPI inflation coming in stronger than consensus, a risk we have been recently highlighting. Core measures of inflation were relatively steady, averaging around 1.7-1.8% although annual non-tradeables inflation was 0.2% higher than the RBNZ projected, alongside the 0.5% miss in headline inflation. To that we can add the stronger GDP figures that came out last month and other activity data which are holding up nicely, against the plunge in business confidence. The latter seemed to have some impact on the RBNZ's thinking about the policy outlook but it would be prudent not to overlook the "hard" evidence and all this will provide some food for thought for the Bank as it begins its forecasting round ahead of the November MPS.

The rates market priced out some of the easing in the OIS curve, with the implied probability of a rate cut by August 2019 falling from 24% to 18% after the CPI data. We still find it highly unlikely that the RBNZ would cut rates in the current environment and expect easing expectations to continue to fade over time. The 2-year swap rate rose 4bps to a high of 2.06%, before ending the day 2bps higher. Against a backdrop of steady global rates, government bond rates were 4-5bps higher across the curve.

The NZD faded after the initial move higher, but has regained that ground in overnight trading to currently sit around 0.6590. The GDT dairy auction showed a small fall in prices, much better than the larger drop indicated by the NZX futures market, but this seemed to have little impact on the NZD.

In global equity markets, the Euro Stoxx 600 rose by 1.6% while the S&P500 is currently up 1.8%, with the buy-the-dip brigade coming out in force and pushing the index back above its 200-day moving average. Stronger earnings reports have supported the move and the dataflow have been positive. The US JOLTS report showed US job openings rise in August to a fresh high, exceeding the number of unemployed people by over 900k, the most on record. Both US homebuilder sentiment and industrial production figures were slightly ahead of consensus.

Improved risk sentiment has supported emerging market currencies and that might be one additional factor supporting the NZD but the AUD is lagging, barely higher from this time yesterday at 0.7140. The NZD's outperformance sees NZD/AUD up 0.5% to 0.9230, its highest level since June and breaking out of the very tight range seen over the past couple of months. All NZD crosses are higher, with the biggest move seen in NZD/JPY, up 1% to around 74, reflecting higher risk appetite.

EUR is flat while GBP has tracked higher. Again, we're reading mixed news on Brexit, but the market is taking a more optimistic view. EC President Tusk said that we should "remain hopeful" as "there is good will to continue these talks on both sides." EU chief Brexit negotiator Barnier said that more time was needed to reach a comprehensive agreement "...there are several open issues related to Ireland", so there is an expectation that this week's EU summit might be too soon to reach an agreement. On the economic front, UK wage inflation excluding bonuses rose to its highest level in a nearly 10 years. Once Brexit uncertainty clears, the stronger data should add conviction to more BoE rate hikes. GBP sits this morning at 1.3190 while NZD/GBP is hovering around 0.50.

Despite the big rally in global equities, US Treasuries have been tightly range bound, with the 10-year range oscillating in a tight 2.5bps range of 3.15-3.175%, the market seemingly not willing to take yields higher at this juncture.

There will be no key data releases during local trading hours. UK CPI data are reported tonight, although these will be of less interest until a Brexit deal can be reached, which overhangs the market. FOMC minutes of the September are released tomorrow morning, but shouldn't move the dial.

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Coming Up

		Period	Cons.	Prev.	NZT
UK	CPI (y/y%)	Sep	2.6	2.7	21:30
UK	CPI Core (y/y%)	Sep	2.0	2.1	21:30
EC	Construction output (m/m%)	Aug		0.3	22:00
US	Housing starts (k)	Sep	1210	1282	01:30
US	Building permits (k)	Sep	1274	1229	01:30
US	FOMC Meeting Minutes				07:00

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	0.6590	+0.6	0.6560	0.6597	CHF	0.9900	+0.3		S&P 500	2,793	+1.7	9.2	Oil (Brent)	81.05	+0.9
AUD	0.7140	+0.1	0.7112	0.7151	SEK	8.896	-0.6		Dow	25,607	+1.9	11.5	Oil (WTI)	71.85	+0.4
EUR	1.1576	-0.0	1.1566	1.1621	NOK	8.138	-0.2		Nasdaq	7,578	+2.5	14.4	Gold	1230.1	+0.1
GBP	1.3187	+0.3	1.3141	1.3236	HKD	7.837	+0.0		Stoxx 50	3,257	+1.5	-9.7	HRC steel	832.0	-0.2
JPY	112.26	+0.4	111.96	112.29	CNY	6.912	-0.1		FTSE	7,059	+0.4	-6.2	CRB	199.9	+0.0
CAD	1.2920	-0.5			SGD	1.374	-0.2		DAX	11,777	+1.4	-9.4	Wheat Chic.	544.0	+0.2
NZD/AUD	0.9230	+0.4			IDR	15,201	-0.1		CAC 40	5,173	+1.7	-3.5	Sugar	13.33	-1.3
NZD/EUR	0.5693	+0.6			THB	32.49	-0.6		Nikkei	22,549	+1.2	6.1	Cotton	78.56	-0.3
NZD/GBP	0.4997	+0.3			KRW	1,128	-0.6		Shanghai	2,546	-0.8	-24.6	Coffee	118.6	-1.6
NZD/JPY	73.98	+1.1			TWD	30.85	-0.1		ASX 200	5,870	+0.6	-0.3	WM powder	2630.0	+0.0
NZD/CAD	0.8514	+0.0			PHP	53.91	-0.4		NZX 50	8,803	-0.4	8.5	<b>Australian Futures</b>		
NZ TWI	72.11	+0.5											3 year bond	97.895	0.00
													10 year bond	97.28	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	2.45	3.06	3.21	USD	3.15	-0.00	NZGB 6 05/15/21	1.85	0.04	1 year	1.96	0.01		
AUD	1.50	1.93	2.03	2.89	AUD	2.71	0.02	NZGB 5 1/2 04/15/23	2.05	0.04	2 year	2.04	0.02		
NZD	1.75	1.90	2.04	2.91	NZD	2.52	0.05	NZGB 2 3/4 04/15/25	2.31	0.05	5 year	2.41	0.03		
EUR	0.00	0.06	-0.11	1.02	GER	0.49	-0.01	NZGB 4 1/2 04/15/27	2.52	0.05	7 year	2.65	0.03		
GBP	0.75	0.81	1.17	1.70	GBP	1.61	-0.00	NZGB 3 04/20/29	2.69	0.05	10 year	2.92	0.03		
JPY	-0.04	-0.09	0.06	0.36	JPY	0.15	0.00	NZGB 3 1/2 04/14/33	2.86	0.04	15 year	3.18	0.03		
CAD	1.50	1.17	2.63	2.88	CAD	2.50	-0.00	NZGB 2 3/4 04/15/37	3.00	0.05					

\* 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

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