

The Final Countdown

Taliban fighters have rapidly taken control of much of Afghanistan, and over the weekend entered Kabul and sought the unconditional surrender of the central government. Afghan officials say President Ashraf Ghani has fled the country. (Source [NZ Herald, Associated Press](#)).

Canadian Prime Minister Justin Trudeau called a snap federal election in a bid to regain a majority in the House of Commons. The election was called over the weekend and will be held on September 20 (Source [Stuff, Washington Post](#)).

In US economic data, import prices rose by 0.3% in July to be up 10.2% on a year ago (survey: +10.6%). Export prices lifted 1.3% in July to be up 17.2% on a year ago (survey: +16.7%). The University of Michigan preliminary consumer sentiment index slumped from 81.2 to a decade low of 70.2 in August (survey: 81.5). There have only be two larger declines in the index in the past 50 years.

US sharemarkets edged higher on Friday as a lift in the value of shares in Walt Disney outweighed news of a slump in consumer sentiment. Shares in Walt Disney rose 1% on favourable reaction to its latest earnings news. The Dow Jones index rose less than 0.1% to remain trading at record highs. The S&P 500 index lifted 0.2%, also at record highs. And the Nasdaq index was also flat, gaining less than 0.1%, and is around 0.5% off its peak. Over the week, the Dow rose by 0.9%; the S&P 500 rose by 0.7%; but the Nasdaq fell by 0.1%.

US Treasuries were higher on Friday (yields lower) in response to a slump in consumer sentiment to decade lows. US 10-year yields fell by 8 points to 1.28%. And US 2-year yields fell by 2 points to near 0.21%. For the week, US 10-year yields fell by 2 points while US 2-year yields were largely flat.

The local sharemarket was up 0.6% on Friday, but flat for the week, and 6% off the January high. NZ 10-year yields rose 11 basis points over the week.

European sharemarkets were firmer on Friday. The pan-European STOXX 600 index rose by 0.2%, hitting record highs for a 10th consecutive session - the longest winning streak since December 2006. Shares in Adidas rose 2.3% after it said it was selling Reebok to Authentic Brands Group for up to 2.1 billion euros (US\$2.5 billion). The German Dax index also scaled new peaks, up by 0.3%, while the UK FTSE index rose by 0.4%.

FX Comment: Major currencies were firmer against the US dollar in European and US trade. All eyes will be on the RBNZ this week, and there is potential for volatility and a wide range of scenarios that could send the NZD away from recent ranges centred around 0.7000 against the USD and 0.9500 against the AUD.

Day ahead: The Performance of Services index is due in NZ today. In China, retail sales, industrial production and fixed asset investment data are scheduled. In the US, the New York Empire State manufacturing index is issued. **Week ahead local:** The week's main event is Wednesday's RBNZ announcement. We expect the RBNZ to lift the OCR by 25bp to 0.50%. Recent data have shown the labour market rapidly heading back towards full employment and sharp lifts in inflationary pressures. We expect the RBNZ will judge there is a greater risk of inflation exceeding the target band for a prolonged period than of snuffing out the recovery with premature tightening, paving the way for the next tightening cycle. The RBNZ's decision to wind up the Large Scale Asset Purchase programme at its last meeting was a precursor. We expect the OCR to reach 1.00% by the end of the year. There is some risk of a faster pace of hikes, and a 50bps hike to 0.75% can't be entirely ruled out (though is not our base case). The latest Global Dairy Trade event takes place on Tuesday night. **Week ahead international:** In Australia, wage growth data are due Wednesday, and July's labour report is due Thursday. We expect employment to post a modest rise of 10k in July and for the unemployment rate to remain at 4.9%. In the US, the FOMC meeting minutes (Thursday), retail sales and industrial production (both Tuesday) are all scheduled for the week ahead. UK employment data are due Tuesday, and retail sales data on Friday. **Author:** chris.tennent-brown@asb.co.nz

Currencies			Currencies			Commodities			Equities		
NZD/USD	0.7043	0.1%	NZD/SEK	6.087	0.2%	NZX WMP	3505.0	-0.3%	Dow	35515	0.0%
NZD/AUD	0.9554	0.1%	NZD/DKK	4.440	0.1%	Gold \$/o	1779.7	1.5%	S&P 500	4468	0.2%
NZD/EUR	0.5971	0.0%	NZD/THB	23.5	0.2%	WTI Oil \$/b	68.4	-0.9%	NASDAQ	14823	0.0%
NZD/JPY	77.23	0.2%	AUD/USD	0.7371	0.0%	Money Market (%)			FTSE	7219	0.4%
NZD/GBP	0.5085	0.2%	EUR/USD	1.180	0.0%	90 Day BB	0.67	-0.01	CAC-40	6896	0.2%
NZD/CAD	0.8815	0.2%	USD/JPY	109.7	0.1%	OCR	0.25	0.00	DAX	15977	0.3%
NZD/CHF	0.6460	0.3%	10 Yr Bond Yields (%)			ASB Swap Rates (%)			H.Seng	26392	-0.5%
NZD/HKD	5.478	0.0%	NZ	1.84	0.03	1yr	1.08	0.01	Nikkei	27977	-0.1%
NZD/SGD	0.9540	0.0%	US	1.28	-0.08	2yr	1.33	0.01	ASX200	7629	0.5%
NZD/CNH	4.562	0.1%	Aust	1.22	0.03	5yr	1.66	0.02	NZX50	12764	0.0%

ASB Economics & Research			Phone	Fax
Chief Economist	Nick Tuffley	nick.tuffley@asb.co.nz	(649) 301 5659	(649) 302 0992
Senior Economist	Mark Smith	mark.smith4@asb.co.nz	(649) 301 5657	
Senior Economist	Mike Jones	mike.jones@asb.co.nz	(649) 301 5661	
Senior Economist	Jane Turner	jane.turner@asb.co.nz	(649) 301 5853	
Senior Economist, Wealth	Chris Tennent-Brown	chris.tennent-brown@asb.co.nz	(649) 301 5915	
Economist	Nat Keall	nathaniel.keall@asb.co.nz	(649) 301 5720	
Publication and Data Manager	Judith Pinto	judith.pinto@asb.co.nz	(649) 301 5660	



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ASB Economics
ASB North Wharf, 12 Jellicoe Street, Auckland

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