

US, the star of the show this week

- Focus on the US will continue this week.
- Fed speakers and the second US Presidential debate will be key events.
- ECB speakers will also garner some interest in a week relatively light in data.

Focus over the weekend was firmly on the US and the latest US Non-farm Payrolls (NFP) report. This US-centric theme will continue this week with the second Presidential debate, US Federal Reserve meeting minutes released on Thursday and a number of US Federal Reserve members speaking during the week.

The US Non-farm Payrolls (NFP) report, a barometer for the US labour market, initially disappointed as the number of jobs claimed were lower than expected (165k gained vs. 171k expected) and the unemployment rate ticked slightly higher. The NFP report and expectations for future Federal Reserve rate moves are closely related. Among other things, the Fed is looking for solid evidence that the US labour market is returning to full employment before lifting interest rates. However, looking closer at the details, the report was more positive. Firstly, the August's results were revised higher from 151k to 167k. Secondly, the lift in the unemployment rate was largely due to a lift in the participation rate, which is a positive sign. Thirdly, the broader U-6 unemployment rate (unemployed, underemployed and discouraged) held steady and is near its lowest level since early 2008. As a result, the initial disappointment soon dissipated and market pricing for a December rate hike lifted to 66%.

Despite the positive NFP result, attention will shortly be diverted away from Fed rate hikes towards the second US Presidential debate. Screening at 2pm today NZT, the second debate is likely to be watched by millions. It was concluded that the first debate was won by Hillary Clinton and her ratings in polls have increased since. Given the possible economic implications from some of Trump's proposed policies, global markets are likely to remain on edge until Americans cast their votes on November 8.

Once the debate and analyses end, attention will return to the outlook for US interest rates, especially with the number of US Fed speakers this week. These speakers include US Fed Chair, Janet Yellen who is due to speak on Friday as well as Dudley, Evans, George, Rosengren and Kashkari. Finally, Thursday morning's US Fed meeting minutes cements what will be a US-centric week. As always, the minutes will be closely scrutinised for any clues on the likely timing of the next rate hike. We continue to expect the Fed will lift interest rates in December.

Outside of the US there are few major events happening. Key interest elsewhere will likely lie in Europe where a number of European Central Bank members are due to speak. Comments over the future actions of the ECB will be closely scrutinised (especially if they are in relation to the tapering off of asset purchases). Elsewhere, including New Zealand, the majority of data releases are second-tier and will be unlikely to cause substantial market movements.

Foreign Exchange

- The NZD fell last week amid weak global sentiment and lower dairy prices.

Interest Rates

- Strong NZ data saw NZ yields rise higher over the week.

Week Ahead

- Card spending, consumer confidence and REINZ data due this week.

Week in Review

- New Zealand business confidence was strong, dairy prices fell slightly.

Global Calendars

- FOMC meeting minutes, US retail sales, Australian lending growth & RBA financial Stability Report

Chart of the Week: When the Pound fell, again



On Friday, during our timezone, the pound dropped as much as 10% against the USD and 6% against the NZD. This was the biggest intraday fall since the UK voted to leave the European Union on June 24.

The dramatic fall in the pound caused widespread confusion because it was not immediately obvious what had sparked it. A Bank of England spokesperson announced that they are looking into the cause of the fall. In our opinion, we think there could have been a number of drivers behind the move including thin liquidity, algorithm trading, fund selling and comments by European officials that they would take a tough stance with the UK in terms of negotiating Brexit.

Following the initial spike, the Pound recovered to a degree, but did not make up for the entire fall. While comments around the nature of the negotiations between the UK and Europe were only one factor, they do highlight the fact that more volatility is ahead as the UK navigates its way out of the EU.

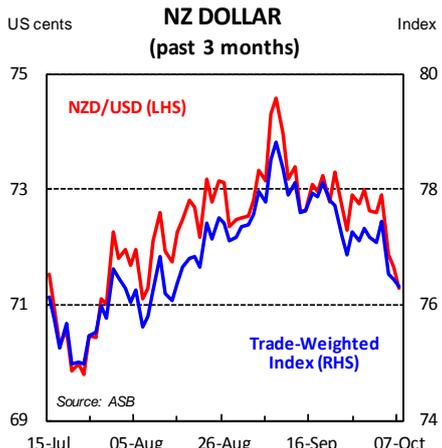
Foreign Exchange Market

FX Rates	Current*	Week ago	Month ago	6 mths ago	Year ago	ST Bias	Support^	Resistance^
NZD/USD	0.7177	0.7260	0.7397	0.6817	0.6674	DOWN	0.7050	0.7280
NZD/AUD	0.9439	0.9489	0.9673	0.9009	0.9170	DOWN	0.9300	0.9600
NZD/JPY	74.04	73.61	75.49	73.52	80.05	FLAT	72.90	74.60
NZD/EUR	0.6422	0.6462	0.6559	0.5973	0.5916	FLAT	0.6310	0.6510
NZD/GBP	0.5786	0.5607	0.5551	0.4820	0.4342	UP	0.5680	0.5850
TWI	76.7	77.1	78.4	72.0	71.5	DOWN	76.00	79.75

^Weekly support and resistance levels * Current is as at 9.30 am Monday; week ago as at Monday 5pm.

A fall in global risk sentiment and lower dairy prices saw the **NZD fall against the USD, AUD and EUR last week**. However, with **Brexit concerns rising, the NZD lifted against the GBP**. Meanwhile, amidst "hard Brexit" fears, the **GBP suffered a "flash crash" on Friday afternoon NZT**. The GBP/USD fell to around 1.15 from 1.26, before recovering to 1.24, all in a few minutes. While the driver is not immediately clear (with the Bank of England investigating), it's likely that negative headlines triggered computer-based algorithm selling of the GBP before bargain hunters jumped in, returning the GBP to more reasonable levels. **We expect the GBP to remain heavy this week**.

We expect the **USD to remain firm this week**, with the key drivers being US retail sales and FOMC meeting minutes. The USD could also be influenced by the outcome of the second US Presidential debate between Hillary Clinton and Donald Trump (Monday 2pm NZT). Meanwhile, we see some scope for the **NZD/AUD to edge lower this week**, as coking coal and iron ore prices firm while dairy prices consolidate.

Short-term outlook:	Key data	Date	Time (NZT)	Market
US cents NZ DOLLAR (past 3 months) Index 	NZ Electronic Card Spending	11/10	10:45am	0.8%
	US FOMC meeting minutes	13/10	7.00 am	-
	RBA Financial Stability Report	14/10	1.30 pm	-
Key events: NZD: Card Spending (Tue); Sep manufacturing PMI, Oct consumer confidence (Thu). USD: US Presidential debate (today); Sep FOMC meeting minutes (Thu); Sep retail sales (Fri). AUD: Sep business confidence, Aug home loans (Tue); Oct consumer confidence (Wed); Oct consumer inflation expectations (Thu); RBA Financial Stability Review (Fri). JPY: Aug balance of payments (Tue). CNY: Sep trade balance (Thu); Sep CPI (Fri). EUR: Oct German ZEW (Tue); Aug industrial production (Wed); Aug trade balance (Fri). GBP: Aug construction output (Fri).				
Speakers: FOMC: non-voter Evans (Tue), non-voter Kashkari (Wed & Fri), voter Dudley (Wed), Voter George (Thu), non-voter Harker, voter Rosengren (Fri), Chair Yellen (Sat). ECB: Visco (Tue), Mersch & Coeure (Wed); Mersch (Thu).				

Medium-term outlook:

Last Quarterly Economic Forecasts

We amended the **GBP, EUR and JPY outlook in late June after the Brexit vote**. The UK's decision to exit the EU at the June 23 referendum saw us cut our near-term GBP/USD estimate in response to likely recession and uncertainty. The exit vote provoked the buying of safe-haven currencies, strengthening the Yen in particular.

Meanwhile, **the NZD remains supported by relatively high Terms of Trade, relatively high interest rates, increased offshore investor demand and a structural improvement in the current account deficit**. The NZD/USD risks remaining above our forecast range of 0.67-0.68. However, we expect the RBNZ to cut interest rates once more in 2016, in November. While this will potentially weigh on the NZD/USD, a lowered chance of Fed interest rate hikes will limit NZD/USD downside. Over 2017, we see the NZD/USD remaining elevated in a range of 0.70-0.73.

We still expect the **RBNZ to cut the OCR to 1.75%, but the RBA is likely to move its cash rate to 1.25%**. The RBA's May/August rate cuts and prospect for more means we have firmed our NZD/AUD medium-term forecast to 0.95. Although our forecasts had NZD/AUD remaining around 0.93 over the near term, that pair is likely to trade around 0.93-0.95 until the RBNZ cuts the OCR further.

There is a firm chance the NZD now remains more elevated against the EUR than had previously thought. Following the UK's June 23 vote to leave the EU, there is now a higher chance that the ECB provides more stimulus to the European economy. However, the Eurozone's current account surplus will continue to help support the EUR, limiting downside. **In the near term we continue to see NZD/JPY hold above 70**. Further out, the prospect for more BOJ easing should weaken the JPY, pushing NZD/JPY above 85 in 2017.

The **GBP fell sharply in response to the UK's decision to leave the EU**. Consequently, the GBP is now likely to remain lower than its pre-Brexit level and the NZD/GBP higher as a result.

Interest Rate Market

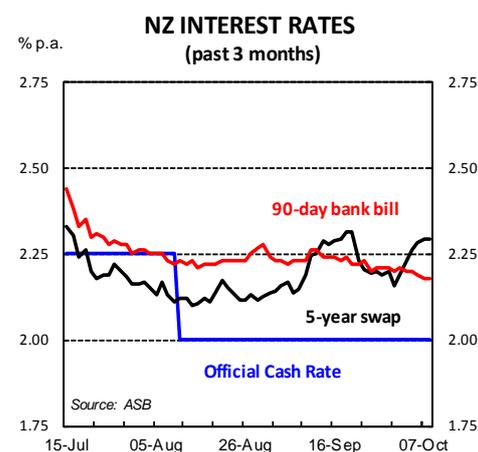
Wholesale interest rates	Current	Week ago	Month ago	6 mths ago	Year ago	ST Bias
Cash rate	2.00	2.00	2.00	2.25	2.75	FLAT
90-day bank bill	2.18	2.21	2.23	2.33	2.83	FLAT
2-year swap	2.13	2.05	2.05	2.23	2.76	FLAT
5-year swap	2.30	2.19	2.19	2.51	3.10	UP
5-year benchmark gov't stock	2.08	1.95	1.90	2.20	2.81	UP
NZSX 50	7168	7372	7475	6720	5639	FLAT

^Weekly support and resistance levels * Current is as at 9.30am Monday; week ago as at Monday 5pm.

With US Non-farm Payrolls data capping the week off, the run-up was relatively benign for NZ yields, although not without incident. Strong QV housing data and the QSBO business survey pushed yields higher, but volumes were extremely light. **Thin liquidity was a NZ theme through the week,** while there was little to fundamentally force a change in predictions of a 25bp OCR cut in November. The odds only moved from 67% at the start of the week to 72% at the start of this week.

US yields saw some early volatility from the better than expected manufacturing ISM and further movement from the non-manufacturing ISM later in the week. **These, combined with some more hawkish rhetoric from various Fed members, underlined estimates for a hike in the Fed Funds this December.** Some members have insisted November's meeting is 'live', although it is considered too close to the election by most analysts. The RBA meeting was the first chance for the new Governor to make his mark. However, the unchanged decision and relatively little adjustment in the statement meant there was constrained volatility in rates.

Short-term outlook:



Key data

	Date	Time (NZT)	Market
NZ Electronic Card Spending	11/10	10:45am	0.8%
US FOMC meeting minutes	13/10	7.00 am	-
RBA Financial Stability Report	14/10	1.30 pm	-

Comment: Further fallout from the US Non-farm Payrolls number and US Presidential debate will be delayed a day, due to the US holiday on Monday. While there are some NZ events on the agenda, they are second tier releases and as such would have to produce an unusual result to generate much movement in rates. That leaves offshore events in the hot-seat, with Federal Reserve minutes early on Thursday morning possibility the most alluring. Should issues with the Republican candidate for the US Presidential election cause re-think, there could be some movement in US rates, although flow through to NZ could be fairly limited. Further developments in the Deutsche Bank fine from the US Department of Justice have potential to move markets in either direction.

Medium-term outlook:

Last Quarterly Economic Forecasts

The RBNZ left the OCR on hold at 2%, as widely expected, on September 22. In addition, **the RBNZ maintained a firm easing bias** of "our current projections and assumptions indicate that further policy easing will be required." The market was expecting a strong easing bias and, combined with "a lower exchange rate is needed", financial markets were not disappointed.

The RBNZ's concerns were very much in line with those raised in the August MPS. Although the RBNZ is still concerned about housing risks, it is also now more concerned about the downside inflation risks, particularly if inflation expectations were to fall further. The NZD Trade Weighted Index assumes the NZD will gently depreciate from around 76 beyond year-end, and there is a risk that the RBNZ will have to ease to a greater extent if the NZD doesn't follow that path. The NZD was again called out as making it difficult for the RBNZ to meet its inflation objective and in need of depreciation. However, at the same time, the RBNZ did acknowledge that some of the recent strength of the NZD was due to the gains in dairy prices.

We continue to expect the RBNZ to cut once further, in November, when the RBNZ has received the next set of key economic data, including key long-term inflation expectations, and has comprehensively redone its forecasts. **In addition, the risks remain skewed to a lower OCR than 1.75%, particularly if the NZD persists above the RBNZ's assumed level, inflation expectations weaken or funding pressures limit the extent to which banks pass on November's OCR cut.**

Key international data for the week ahead

Data	Date	Time (NZT)	Previous	Market expects	ASB expects
Australia Housing Finance, August, %mom	11/10	1.30 pm	-4.2%	-1.5%	-4%
Australia WBC Consumer Confidence, October, Index	12/10	12.30 pm	101.4	-	-
Eurozone Industrial Production, August, %mom	12/10	10.00 pm	-1.1	+1.5	-
US FOMC Meeting Minutes	13/10	7.00 am	-	-	-
RBA Financial Stability Report, October	14/10	1.30 pm	-	-	-
US Retail Sales, September, %mom	14/10	1.30 am	-0.3	+0.6%	-

Australian housing finance approvals for owner-occupiers remain at elevated levels. However, approvals for investors are well down from their peak in mid-2015. **We expect a further tapering (i.e. fall) in the number and value of loans in August.** Overall, the May and August rate cuts will continue to underpin housing demand and activity.

There was a **rebound in the WBC consumer confidence in September** in the wake of the RBA's most recent rate cut during the first week of August. The October survey will give us an idea if this boost in consumer sentiment was "temporary" or whether the outlook is more resilient.

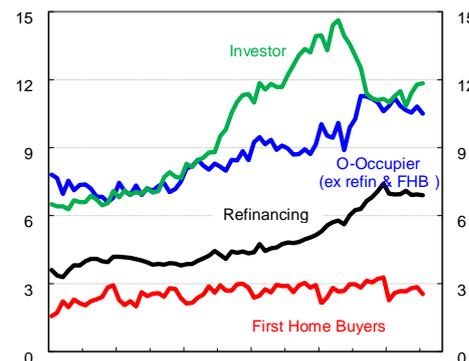
The **RBA's semi-annual Financial Stability Review (FSR) is not expected to contain any real surprises.** As in recent FSRs, there is likely to be plenty of commentary about the domestic housing market. The RBA seems comfortable that macro-prudential measures are having an impact by cooling activity in the housing market, particularly with respect to investor activity, despite the background of record low domestic interest rates.

Eurozone industrial production has been volatile over recent months. Based on this pattern, following the fall in July, **a rebound is expected in August.** That said, annual growth will remain weak, with underlying momentum in industrial production struggling to pick up the pace across the major Eurozone nations given the subdued external environment.

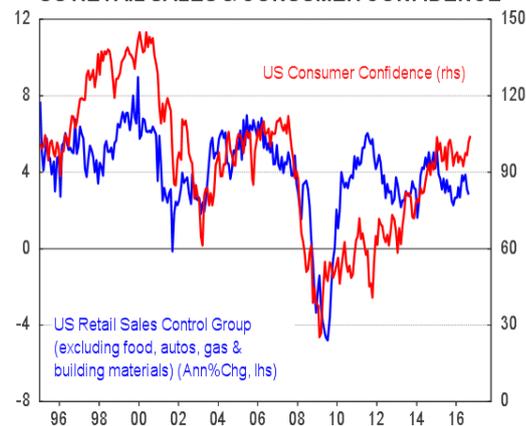
The **minutes from the September meeting will highlight the fact that the Federal Open Market Committee (FOMC) is moving closer to a December rate hike.** But the minutes may be perceived as dovish if they reveal the FOMC had a lengthy discussion of forces bearing down on the natural rate.

Favourable US labour market trends and the lift in consumer confidence point to a **monthly rebound in the retail sales control group**, the subset of the retail sales data that forms part of consumer spending the GDP data.

HOUSING LOAN APPROVALS



US RETAIL SALES & CONSUMER CONFIDENCE



NZ Data Preview: a look at the week ahead

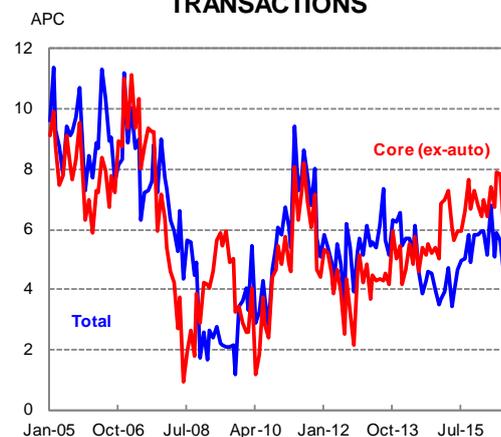
Data	Date	Time (NZT)	Previous	Market expects	ASB expects
Electronic card spending, September, % mom	11/10	10:45am	-0.4	0.8	0.7
Consumer confidence, October	13/10	1:00 pm	121.0	-	-
REINZ House Sales, September, s.a., % mom	10-14/10	-	9.7	-	-

Electronic card spending declined in August following the 5-weekend month of July, but a small recovery is expected for September. Spending on fuel should increase given the price at the pumps rose. After a poor August, tourism spending looks set to bounce back, but apparel could continue to drag given the wet month. **With new housing construction still in full swing there is potential for durables to grow.** Consumables are also likely to bounce back, as a poor month is usually followed by recovery. All this adds up to a **0.7% mom total increase and, once petrol/vehicles are stripped out, core spending will likely grow 0.6% mom.**

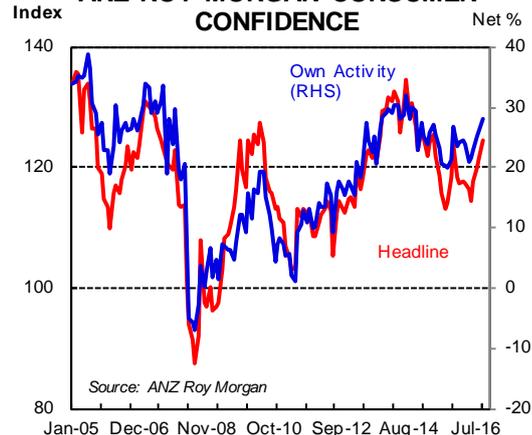
Consumer confidence extended its recent recovery in August (on a seasonally-adjusted basis). Given Fonterra's increase in its forecast milk price for this season to \$5.25/kg milk solids, confidence could well rise even further. Talk of another OCR cut from the RBNZ next month may also give consumers cause to cheer, while economic data suggest growth is robust. The headline confidence measure got close to the 2016 high in August and it only needs to improve 0.5 to overtake it in September, a move easily within reach of the index. However, the one-year-ahead measure is still shy of levels seen 18 months ago, suggesting that while consumers are upbeat on the current picture, some caution remains.

So far, September housing data suggest that activity in New Zealand's housing market is slowing. We expect that this is largely due to the latest round of investor Loan-to-Value restrictions (LVRs). **We are expecting REINZ data for September to show a similar pattern.** However, while inventory levels remain near record lows, we expect a floor to remain under house prices (especially in Auckland). Over the remainder of the year, activity will likely remain subdued as buyers and sellers tread cautiously and assess the impacts of the new LVRs on the market.

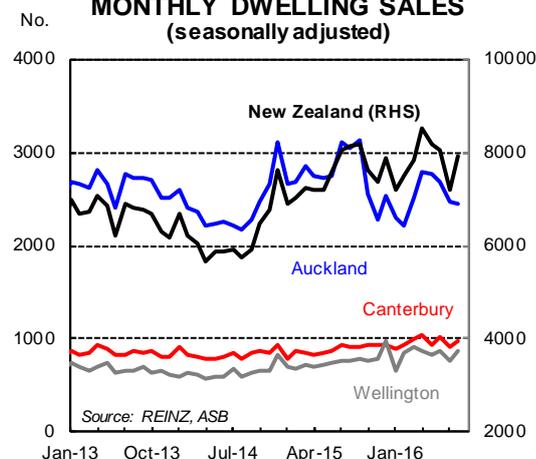
RETAIL ELECTRONIC CARD TRANSACTIONS



ANZ ROY MORGAN CONSUMER CONFIDENCE



MONTHLY DWELLING SALES (seasonally adjusted)

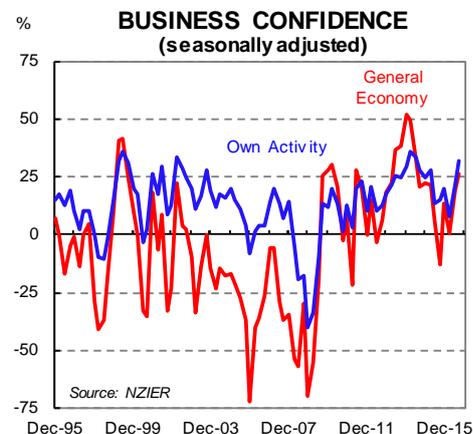


Data Recap: weekly recap

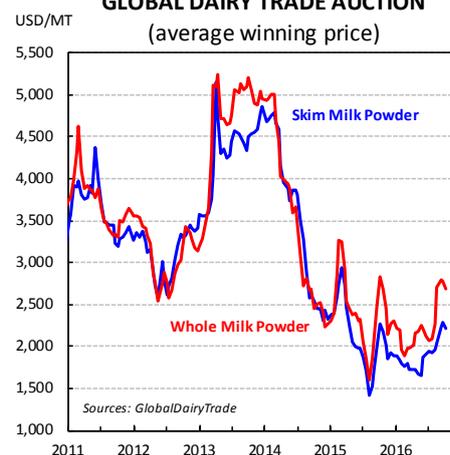
Data	Date	Actual	Market forecast	ASB Forecast
NZIER QSBO, General Business Confidence, net % s.a.	04/10	26.5	-	-
Global Dairy Trade Auction, Whole Milk Powder, % change	04/10	-3.8	-	flat

The NZIER Q3 Quarterly Survey of Business Opinion showed a **strong increase in business confidence**, a clear sign that underlying economic momentum will increase over H2 2016. However, beyond the lift in confidence, some of the results remain mixed and direct inflation measures also remain weak. On one hand, the labour market is clearly tightening. On the other, firms remain unable to pass on cost increases and profitability growth remains low – which could impact employment and investment plans going forward. There are **no implications to our OCR view, we continue to expect a 25bp rate cut in November** and still see a risk of another cut next year.

Dairy prices gave back some of their recent gains at last week's Global Dairy Trade auction. Overall prices fell 3.0%, while WMP and SMP prices dipped 3.8% and 3.9%, respectively. In view of the recent price surge, it is not surprising dairy markets wanted to catch their breath. WMP prices, for example, had spiked 35% over August and September. The result was a touch weaker than expectations heading in. Futures market pricing hinted at a WMP fall in the 0% to 2% range prior to the auction. The price dip was broad-based, with seven out of eight products on offer recording price falls. **From here, we expect prices to track largely sideways over coming auctions** as markets wait for further confirmation of weakening NZ production.



GLOBAL DAIRY TRADE AUCTION
(average winning price)



Global Data Calendars

Calendar - Australasia, Japan and China

Date	Time (NZT)	Eco	Event	Period	Unit	Last	Forecast	
							Market	ASB
Tue 11 Oct	-	AU	HIA House Affordability Index	Q3	Index	78.7	~	~
	10:45	NZ	Card Spending Retail MoM	Sep	m%ch	-0.4	+0.8	+0.7
	11:30	AU	ANZ Roy Morgan Weekly Consumer Confidence	Oct	Index	117.9	~	~
	12:50	JN	BoP Current Account Balance	Aug	¥bn	1,938.2	~	~
	13:30	AU	NAB Business Conditions	Sep	Index	7.0	~	~
	13:30	AU	Home Loans MoM	Aug	m%ch	-4.2	~	~
Wed 12 Oct	13:30	AU	Owner-Occupier Loan Value MoM	Aug	m%ch	-3.1	~	~
	12:30	AU	Westpac Consumer Conf Index	Oct	Index	101.4	~	~
	12:50	JN	Machine Orders MoM	Aug	m%ch	4.9	~	~
Thu 13 Oct	19:00	JN	Machine Tool Orders YoY	Sep P	y%ch	-8.4	~	~
	~	CH	Trade Balance	Sep	CNY bn	52.1	53.3	~

	~	CH	Exports YoY	Sep	y%ch	-2.8	-3.3	~
	~	CH	Imports YoY	Sep	y%ch	1.5	0.8	~
	10:00	NZ	ANZ Job Advertisements MoM	Sep	m%ch	3.1	~	~
	10:30	NZ	BusinessNZ Manufacturing PMI	Sep	Index	55.1	~	~
	13:00	AU	Consumer Inflation Expectation	Oct	%	3.3	~	~
	13:00	NZ	ANZ Consumer Confidence Index	Oct	Index	121.0	~	~
Fri 14 Oct	12:50	JN	Japan Buying Foreign Bonds	Oct	¥bn	-636.8	~	~
	12:50	JN	PPI MoM	Sep	m%ch	-0.3	~	~
	13:30	AU	RBA Financial Stability Review					
	14:30	CH	CPI YoY	Sep	y%ch	1.3	1.6	~
	14:30	CH	PPI YoY	Sep	y%ch	-0.8	-0.3	~
	This week or next:	NZ	REINZ House Sales YoY	Sep	y%ch	-3.1	~	~

*P = Preliminary

Calendar - North America & Europe

Date	Time (UKT)	Eco	Event	Period	Unit	Last	Forecast	
							Market	ASB
Mon 10 Oct	07:00	GE	Trade balance	Aug	€bn	19.5	~	~
	07:00	GE	Current account balance	Aug	€bn	18.6	~	~
	17:30	EC	ECB's Visco speaks in New York					
Tue 11 Oct	02:30	US	Fed's Evans speaks on Economy and Policy in					
	10:00	GE	ZEW survey current situation	Oct	~	55.1	~	~
	17:00	EC	ECB's Mersch speaks in New York					
Wed 12 Oct	~	EC	ECB's Coeure speaks in Brussels					
	10:00	EC	Industrial production	Aug	m%ch	-1.1	~	~
	13:00	US	Fed's Dudley speaks at Fireside Chat in Albany					
	14:40	US	Fed's George speaks at Chicago Fed's Payments Conference					
	19:00	US	FOMC Meeting Minutes	Sep	~	~	~	~
	21:00	EC	ECB's Mersch speaks in Cambridge, MA					
Thu 13 Oct	00:01	UK	RICS house price balance	Sep	%	12.0	~	~
	07:00	GE	CPI	Sep F	m%ch	0.1	~	~
	13:30	US	Import price index	Sep	m%ch	-0.2	0.1	~
	13:30	US	Initial jobless and continuing claims	Oct	~	~	~	~
	17:15	US	Fed's Harker speaks on Economic Outlook in Philadelphia					
Fri 14 Oct	02:00	US	Fed's Kashkari speaks at Town Hall in Missoula, Montana					
	09:30	UK	Construction output	Aug	m%ch	0.0	~	~
	10:00	EC	Trade Balance SA	Aug	€bn	20.0	~	~
	13:30	US	Fed's Rosengren Opening Remarks at Boston Fed Conference					
	13:30	US	Retail sales advance	Sep	m%ch	-0.3	0.5	~
	13:30	US	PPI final demand	Sep	m%ch	0.0	0.2	~
	13:30	US	PPI ex food and energy	Sep	m%ch	0.1	0.1	~
	15:00	US	Business inventories	Aug	%	0.0	0.1	~
	15:00	US	Uni. of Michigan sentiment	Oct P	Index	91.2	92.1	~
	17:00	US	Fed Chair Yellen speaks at Boston Fed Conference					
Sat 15 Oct	10:25	EC	ECB Survey of Professional Forecasters					

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