

1 December 2017



Events Round-Up

NZ: Building permits (m/m%), Oct: -9.6 vs. -2.5 prev.
JN: Industrial production (m/m%), Oct: 0.5 vs. 1.8 prev.
NZ: ANZ survey activity outlook, Nov: 6.5 vs. 22.2 prev.
UK: GfK consumer confidence, Nov: -12 vs. -11 prev.
AU: Private capital expend. (q/q%), Q3: 1.0 vs. 1.0 prev.
AU: Building approvals (m/m%), Oct: 0.9 vs. -1.0 exp.
CH: Manufacturing PMI, Nov: 51.8 vs. 51.4 prev.
CH: Non-manufacturing PMI, Nov: 54.8 vs. 54.3 prev.
GE: Unemployment rate (%), Nov: 5.6 vs. 5.6 prev.
EC: Unemployment rate (%), Oct: 8.8 vs. 8.9 prev.
EC: CPI Estimate (y/y%), Nov: 1.5 vs. 1.6 exp.
EC: CPI Core (y/y%), Nov: 0.9 vs. 1.0 exp.
US: Personal income (m/m%), Oct: 0.4 vs. 0.3 exp.
US: Personal spending (m/m%), Oct: 0.3 vs. 0.3 exp.
US: PCE deflator (m/m%), Oct: 0.1 vs. 0.1 exp.
US: PCE deflator core (m/m%), Oct: 0.2 vs. 0.2 exp.
US: Chicago PMI, Nov: 63.9 vs. 63.0 exp.

Good Morning

Overnight, the NZD has sustained the fall seen after yesterday's ANZ business outlook survey. Some month-end buying pressure sees EUR and GBP higher. US 10-year yields have nudged up through the 2.40% resistance level.

The swoon we saw in IT stocks yesterday proved to be a one-day affair, as their rebound has helped push the S&P500 up over 1% to a fresh record high. A Senate vote on the tax bill is due later this morning with debate still raging on. Senator McCain approves the bill but there remain a number of hold-outs. Newsflow on progress of the vote and month-end flows seem to be dominating USD moves. The various USD indices are currently flat for the day after swinging around a bit.

The NZD is about 0.7% weaker than it was this time yesterday, with the fall confined to the aftermath of the recorded slump in business confidence. Overnight the currency has been tightly range-bound and sits this morning at 0.6840. There was some sticker shock from the poor result, but it wasn't entirely unexpected, as it is normal for confidence to shift down to an enduring lower

plane under a Labour government. Indeed it wouldn't surprise if confidence remained in negative territory for the full term of government. The PMIs are a better read on activity (released earlier this month) and they showed business-as-usual. The rates market was little moved by the result, with one eye on the chunky increase in inflation indicators. The NZD's move revealed more about short-term positioning than anything else.

EUR and GBP have outperformed with traders reporting month-end flows dominating. EUR fell to as low as 1.1810 after weaker than expected inflation data. The euro-area unemployment rate fell to a 9-year low of 8.8%, better than expected, but headline CPI inflation edged up to only 1.5% y/y while the core rate was steady at just 0.9%. Those figures must frustrate the ECB, as it over-stimulates the economy with its rates-suppressing measures but makes little headway in achieving its inflation target. Month-end flows have helped pushed EUR higher, reaching over 1.1930 but since slipping to just below 1.19. NZD/EUR is back probing the 0.5750 level, with the multi-year low of 0.5744 level reached a couple of weeks ago holding, for now.

GBP got a boost after The Times reported that Dublin and London are close to an agreement on the Irish border, moving closer to a Brexit deal. But Bloomberg reports that talks on the Irish border issue are struggling on and highlights the intractability of such a deal. Solving that puzzle paves the way for the UK and EU to begin trade talks which is when the real Brexit negotiations begin. The market is taking an optimistic stance, pushing GBP up to a 2-month high near 1.3550 this morning, before slipping back below 1.35. NZD/GBP fell to its lowest level since the Brexit referendum and sits this morning at 0.5070.

Overnight, NZD/AUD has drifted a little higher as the AUD has softened, but at 0.9050 is still 50pips lower since the ANZ survey. A weaker JPY overnight sees NZD/JPY almost fully making up its post-survey losses to sit around 77.0.

In the bond market the US 10-year rate is on track to record its narrowest monthly range since 1979, maintaining a 2.30%-2.42% range for the entire month, with only a few hours remaining. This is about one-third of the average range of the past five years. We're currently sitting at the top of that range at 2.42%, up 3bps for the day and through the strong resistance level of 2.40%. The PCE deflators were in line with expectations. Germany's 10-year rate was down 2bps to 0.365% after the lower than expected euro-area inflation data.

NZ swap rates were little changed across the curve yesterday, while government bond yields were down 1-2bps. That was a strong performance in the context of the upward pressure from US rates in the previous overnight session. As noted, there was little reaction to the ANZ survey, with the rates market well on track to outperform ahead of the release of that survey. At the local close, the NZ-US 10-year bond spread was down to a skinny 34bps, the lowest since 1993. This reflects a scarcity of NZ bonds until the new government winds up the spending machine from next year and the out of sync US/NZ monetary policy stances.

There's plenty on the economic calendar ahead with the US ISM release tonight the most noteworthy.

jason.k.wong@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
NZ	Terms of trade (q/q%)	Q3	1.3	1.5	10:45
JN	CPI (y/y%)	Oct	0.2	0.7	12:30
JN	CPI ex fresh food, energy (y/y%)	Oct	0.2	0.2	12:30
CH	Caixin PMI manufacturing	Nov	50.9	51	14:45
UK	Markit PMI manufacturing	Nov	56.5	56.3	22:30
CA	GDP (m/m%)	Sep	0.1	-0.1	02:30
US	ISM manufacturing	Nov	58.3	58.7	04:00
US	Construction spending (m/m%)	Oct	0.5	0.3	04:00

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	0.6842	-0.6	0.6832	0.6870	CHF	0.9832	-0.0		S&P 500	2,642	+1.1	20.2	Oil (Brent)	63.61	+0.4
AUD	0.7563	-0.1	0.7558	0.7595	SEK	8.358	+0.0		Dow	24,137	+1.4	26.2	Oil (WTI)	57.38	-0.5
EUR	1.1893	+0.4	1.1809	1.1932	NOK	8.287	+0.6		Nasdaq	6,867	+0.8	29.0	Gold	1276.7	-0.9
GBP	1.3510	+0.8	1.3432	1.3549	HKD	7.810	+0.0		Stoxx 50	3,570	-0.6	17.0	HRC steel	629.0	+0.0
JPY	112.52	+0.5	111.74	112.48	CNY	6.609	-0.1		FTSE	7,327	-0.9	8.0	CRB	189.9	-1.0
CAD	1.2902	+0.3			SGD	1.348	+0.1		DAX	13,024	-0.3	22.4	Wheat Chic.	438.3	+0.7
NZD/AUD	0.9047	-0.5			IDR	13,526	+0.2		CAC 40	5,373	+0.2	17.4	Sugar	15.22	+0.4
NZD/EUR	0.5753	-0.9			THB	32.59	+0.2		Nikkei	22,725	+0.6	24.1	Cotton	75.03	-1.1
NZD/GBP	0.5064	-1.3			KRW	1,088	+1.0		Shanghai	3,317	-0.6	2.1	Coffee	129.1	-3.3
NZD/JPY	76.99	-0.0			TWD	30.01	+0.1		ASX 200	5,970	-0.7	9.7	WM powder	2910.0	+0.0
NZD/CAD	0.8828	-0.3			PHP	50.37	+0.3		NZX 50	8,187	+0.6	18.7	Australian Futures		
NZ TWI	72.45	-0.5											3 year bond	98.07	0.00
													10 year bond	97.47	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	1.25	1.48	1.96	2.39	USD	2.40	0.01	NZGB 3 04/15/20	1.91	-0.01	1 year	1.99	-0.01
AUD	1.50	1.74	1.89	2.71	AUD	2.50	0.03	NZGB 6 05/15/21	2.04	-0.02	2 year	2.15	0.00
NZD	1.75	1.91	2.15	3.09	NZD	2.72	-0.01	NZGB 5 1/2 04/15/23	2.32	-0.02	5 year	2.59	-0.01
EUR	0.00	0.06	-0.18	0.83	GER	0.37	-0.02	NZGB 2 3/4 04/15/25	2.58	-0.01	7 year	2.83	-0.01
GBP	0.50	0.52	0.86	1.39	GBP	1.33	-0.01	NZGB 4 1/2 04/15/27	2.72	-0.01	10 year	3.09	-0.00
JPY	-0.05	-0.01	0.04	0.26	JPY	0.04	0.01	NZGB 3 1/2 04/14/33	3.08	-0.02	15 year	3.33	-0.00
CAD	1.00	1.17	1.78	2.22	CAD	1.88	-0.01	NZGB 2 3/4 04/15/37	3.31	-0.02			

* 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 06:59

Source: Bloomberg

Contact Details

Jason Wong

Senior Markets Strategist
+64 4 924 7652

National Australia Bank

Ray Attrill

Head of FX Strategy
+61 2 9237 1848

Rodrigo Catril

Currency Strategist
+61 2 9293 7109

Gavin Friend

Senior Markets Strategist
+44 20 7710 2155

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