

1 November 2017



Events Round-Up

NZ: Building permits (m/m%), Sep: -2.3 vs. 5.9 prev.
JN: Industrial production (m/m%), Sep: -1.1 vs. -1.6 prev.
NZ: ANZ activity outlook (net %), Oct: 22.2 vs. 29.6 prev.
UK: GfK consumer confidence, Oct: -10 vs. -10 exp.
CH: Manufacturing PMI, Oct: 51.6 vs. 52.0 exp.
CH: Non-manufacturing PMI, Oct: 54.3 vs. 55.4 prev.
JN: BOJ 10y yield target: 0.0 vs. 0.0 exp.
EC: Unemployment rate (%), Sep: 8.9 vs. 9.0 exp.
EC: GDP (q/q%), Q3: 0.6 vs. 0.5 exp.
EC: CPI (y/y%), Oct: 1.4 vs. 1.5 exp.
EC: CPI core (y/y%), Oct: 0.9 vs. 1.1 exp.
CA: GDP (m/m%), Aug: -0.1 vs. 0.1 exp.
US: Employment cost index (q/q%), Q3: 0.7 vs. 0.7 exp.
US: Chicago purchasing manager, Oct: 66.2 vs. 60.0 exp.
US: Conf. Board cons. confid., Oct: 125.9 vs. 121.5 exp.

Good Morning

There has been a plethora of economic data released over the past 24 hours, only some of it market-moving. Commodity currencies have underperformed while global rates have barely moved.

The NZD is down 0.5% from this time yesterday to 0.6835, with much of the damage done during local trading hours. The ANZ business outlook survey showed a further fall in confidence and activity during the period of coalition negotiations but that was hardly news and another – potentially meaty fall – can be expected when the next survey comes out that post-dates the formation of the new government. The data was further fuel for those looking for reasons to sell the NZD as we've consistently seen since the election.

Soft China PMI data added to the woes of the NZD and dragged down the AUD as well. The report suggested that efforts to clean up the environment were a factor, consistent with President Xi's call for quality of growth, rather than quantity. Later, PM Ardern announced that foreign speculators won't be able to buy existing NZ houses, but this had little market impact. The proposed change is in line with other countries like Australia and the scope of the restriction is much more limited than the track the government could have gone down.

The NZD is barely lower from the local close while the AUD has pushed on down towards 0.7650. This saw NZD/AUD return to 0.8950 overnight and it is now at 0.8930, up slightly from the local close. CAD's underperformance can be traced to weaker than expected GDP data, not the first weak indicator since the BoC embarked on a tightening cycle. This sees rate hike expectations pushed out further into 2018 and USD/CAD up through 1.29. NZD/CAD is flat for the day around 0.8820 and up from the local close of 0.8790.

Of the other majors, GBP is the strongest, JPY the weakest and EUR/USD flat. GBP is up 0.5% ahead of the widely anticipated BoE hike later this week and reports that EU's chief Brexit negotiator Barnier saying that he's ready to speed up Brexit negotiations. A spokesperson for PM May said that preparatory work for Brexit "has seen a significant acceleration in recent months". NZD/GBP is down over 1% for the session to 0.5150, a level not seen since the day of the Brexit referendum.

There was little market reaction to euro-area economic data which showed a strong economy but weak inflation. GDP was slightly stronger than expected while the unemployment rate surprisingly fell to 8.9%, the lowest since early 2009. But underscoring the challenge of the ECB, CPI inflation came in slightly softer than market expectations, as forewarned by yesterday's Germany CPI data, while the miss for the core rate was even greater, falling below 1% to a 5-month low. The softer NZD sees NZD/EUR down to 0.5865.

US economic data remained smoking hot, with US consumer confidence rising to an almost 17-year high, both jobs plentiful and jobs hard to get indexes back to levels last seen in the early 2000s, and strong Chicago PMI data. The private sector component of the employment cost index rose to a new cycle high of 2.5%. None of it moved the market, with month-end flows more of a force in the currency market. There is also focus on the US tax bill due later this week and said to be 90% written, while Trump announces his pick for the new Fed Chair later this week. US 10-year rates traded in a tight 2.36-2.38% range and are up less than 1bp to 2.37% from the NZ close.

The BOJ kept rates and policies on hold while slightly lowering its inflation forecasts. Nothing new there. USD/JPY is up 0.5% to 113.70, while NZD/JPY is where it was this time yesterday at 77.7.

The NZ rates curve was dragged down by lower rates in

the previous overnight US session. The 2-year swap rate fell 1bp to 2.15% while the 10-year rate fell by 5bps to 3.15%. Today sees the release of NZ employment and wage data. The unemployment rate is expected to drop to 4.7%, the lowest rate since 2008, while wage inflation is expected to kick higher. These data will help set the tone for next week's RBNZ MPS, which already also has to consider the weaker NZD, higher oil prices, a much higher minimum wage track over coming years, much easier fiscal policy and the higher starting point for inflation.

US ADP employment and ISM data tonight will be followed by the FOMC announcement at 7am tomorrow morning, with little change expected in the text, which keeps alive the prospect of a December hike.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ Unemployment rate (%)	Q3	4.7	4.8	10:45
NZ Employment (q/q%)	Q3	0.8	-0.2	10:45
NZ LCI pvt wages x overtime (q/q%)	Q3	0.7	0.4	10:45
NZ QES avg hourly earnings (q/q%)	Q3	1.1	0.8	10:45
CH Caixin PMI manufacturing	Oct	51.0	51.6	14:45
UK Markit PMI manufacturing	Oct	55.9	55.9	22:30
US ADP employment change ('000)	Oct	200	135	01:15
US ISM manufacturing	Oct	59.4	60.8	03:00
US Construction spending (m/m%)	Sep	-0.1	0.5	03:00
NZ QV house prices (y/y%)	Oct		4.3	05:00
US FOMC rate decision	Nov	1-1.25	1-1.25	07:00

Source: Bloomberg, BNZ

Foreign Exchange						Equities				Commodities**				
Indicative overnight ranges (*)					Other FX		Major Indices				Price			
	Last	% Day	Low	High		Last	% Day				Last	Net Day		
NZD	0.6836	-0.6	0.6831	0.6865	CHF	0.9965	+0.2	S&P 500	2,576	+0.1	21.2	Oil (Brent)	61.24	+0.6
AUD	0.7654	-0.4	0.7640	0.7693	SEK	8.375	+0.3	Dow	23,364	+0.1	28.8	Oil (WTI)	54.41	+0.5
EUR	1.1649	-0.0	1.1625	1.1661	NOK	8.180	+0.4	Nasdaq	6,725	+0.4	29.6	Gold	1271.0	-0.5
GBP	1.3270	+0.5	1.3196	1.3289	HKD	7.802	+0.0	Stoxx 50	3,674	+0.3	20.3	HRC steel	605.0	+0.0
JPY	113.68	+0.4	112.96	113.73	CNY	6.635	-0.2	FTSE	7,493	+0.1	7.7	CRB	187.7	+0.1
CAD	1.2905	+0.6			SGD	1.363	+0.1	DAX	13,230	+0.1	24.0	Wheat Chic.	435.5	-1.7
NZD/AUD	0.8931	-0.1			IDR	13,563	-0.1	CAC 40	5,503	+0.0	22.0	Sugar	14.74	+0.1
NZD/EUR	0.5868	-0.6			THB	33.23	-0.0	Nikkei	22,012	-0.0	26.2	Cotton	68.58	-0.1
NZD/GBP	0.5151	-1.1			KRW	1,120	-0.4	Shanghai	3,393	+0.1	8.7	Coffee	125.3	-0.5
NZD/JPY	77.71	-0.1			TWD	30.16	-0.1	ASX 200	5,909	-0.2	11.7	WM powder	2925.0	-1.0
NZD/CAD	0.8822	-0.0			PHP	51.55	-0.1	NZX 50	8,146	+0.0	17.5	Australian Futures		
NZ TWI	72.75	-0.5										3 year bond	97.99	0.03
												10 year bond	97.30	0.02
Interest Rates						NZ Government Bonds				NZ Swap Yields				
Rates		Swap Yields		Benchmark 10 Yr Bonds										
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day		Last		Last			
USD	1.25	1.38	1.81	2.34	USD	2.37	0.00	NZGB 3 04/15/20	2.01	-0.01	1 year	2.01	-0.00	
AUD	1.50	1.69	1.91	2.85	AUD	2.67	-0.06	NZGB 6 05/15/21	2.15	-0.02	2 year	2.15	-0.01	
NZD	1.75	1.94	2.15	3.15	NZD	2.92	-0.06	NZGB 5 1/2 04/15/23	2.44	-0.04	5 year	2.62	-0.04	
EUR	0.00	0.06	-0.20	0.83	GER	0.36	-0.00	NZGB 2 3/4 04/15/25	2.72	-0.05	7 year	2.88	-0.05	
GBP	0.25	0.43	0.84	1.38	GBP	1.33	-0.00	NZGB 4 1/2 04/15/27	2.92	-0.06	10 year	3.15	-0.05	
JPY	-0.04	-0.04	0.04	0.26	JPY	0.07	0.00	NZGB 3 1/2 04/14/33	3.27	-0.06	15 year	3.40	-0.05	
CAD	1.00	1.17	1.76	2.29	CAD	1.96	0.01	NZGB 2 3/4 04/15/37	3.46	-0.06				

* 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 06:42

Source: Bloomberg

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