

1 September 2017

Events Round-Up

JN: Industrial production (m/m%), Jul: -0.8 vs. -0.3 exp.
NZ: ANZ activity outlook, Aug: 38.2 vs. 40.3 exp.
CH: Manufacturing PMI, Aug: 51.7 vs. 51.3 exp.
CH: Non-manufacturing PMI, Aug: 53.4 vs. 54.5 prev.
AU: Private capital expenditure, Q2: 0.8 vs. 0.2 exp.
GE: Unemployment claims rate, Aug: 5.7 vs. 5.7 exp.
EC: Unemployment rate, Jul: 9.1 vs. 9.1 exp.
EC: CPI (y/y%), Aug: 1.5 vs. 1.4 exp.
EC: CPI core (y/y%), Aug: 1.2 vs. 1.2 exp.
CA: GDP (annualised), Q2: 4.5 vs 3.7 exp.
US: Personal income (m/m%), Jul: 0.4 vs. 0.3 exp.
US: Personal spending (m/m%), Jul: 0.3 vs. 0.4 exp.
US: PCE deflator (m/m%), Jul: 0.1 vs. 0.1 exp.
US: PCE core (m/m%), Jul: 0.1 vs. 0.1 exp.
US: Chicago purchasing manager, Aug: 58.9 vs. 58.5 exp.
US: Pending home sales (m/m%), Jul: -0.8 vs. 0.3 exp.
NZ: QV house prices (y/y), Aug: 4.8 vs. 6.4 prev.

Good Morning

There has been a truckload of data to digest and a number of news stories over the past 24 hours. The NZD has been a net loser, finding itself at the bottom of the leaderboard yet again, rounding off a poor month, and going against the grain of better risk sentiment and outperformance of the other commodity currencies.

The NZD is lower across the board again, although much of the damage was done during local trading hours, after the ANZ business outlook survey showed weaker inflation indicators. Confidence and activity indicators held up surprisingly well considering the poor winter and heading into an election campaign. The data had little impact on the NZ rates market so we can't help think that poor positioning in the NZD is the bigger story here than a fall in inflation expectations (which the RBNZ itself notes as "unreliable"). It has been a familiar refrain all month, which began with (surprisingly) record net long speculative positioning in the NZD. Such skewed positioning has seen the NZD fall steadily through the month, and it is on track to end about 4½% down in August against the USD, with a similar fall on a TWI basis.

From a pre-ANZ survey level of around 0.7200, the NZD

fell to around 0.7170 and fell another 25 pips after the latest Colmar Brunton survey showed National had lost its long-standing lead as the preferred party. A low of 0.7132 was reached before soft US data helped the NZD to recover back to the 0.7175 mark. QV house price data released this morning had no market impact, showing prices up 1.2% over the past 3 months, but falls across Auckland, Wellington and Christchurch.

The USD TWI-majors index is down 0.3% for the day. It was up 0.5%, continuing to show a nice recovery heading into month-end, before weak PCE deflators (as expected) saw a significant unwind. It wasn't all bad news, as the Chicago PMI remained very strong and Bloomberg's consumer comfort index rose to a fresh 16-year high, while pending home sales data were softer than expected. The USD got another kick down after US Treasury Secretary Mnuchin was interviewed on CNBC and said that while the short-term direction of the dollar doesn't concern him, a weaker dollar is "somewhat better" for US trade.

The fall in the USD wasn't all about the weak inflation data though, as the release coincided with strong Canadian GDP data and this affected the various USD indices. The CAD is nearly 1% stronger for the day, as expectations were lifted for another BoC rate hike later this month or in October, seeing USD/CAD approach the 1.25 mark, while NZD/CAD has fallen 1.3% to 0.8970.

EUR is fairly flat around the 1.19 mark. Inflation data showed a lift in the headline rate to 1.5%, but core inflation remaining soft at 1.2%. A Reuters report suggested that the ECB will use next week's meeting to formally discuss the pace of asset purchases going forward, but it was "highly unlikely" that any decision would be made. And three "unidentified people familiar with the matter" suggested that pressure was building for a gentle, rather than rapid, reduction in the pace of asset buying because of concerns about EUR strength. EUR fell to as low as 1.1823 before the USD reversal saw a strong recovery to the current level of 1.19. NZD/EUR got to as low as 0.6009 and a break into the 0.50s seems inevitable, but the cross currently sits at 0.6030.

The AUD remains in favour against a backdrop of rising hard commodity prices and a 2½% boost to oil prices has been helpful as well. Capex data were stronger than expected, highlighting an improved outlook for non-mining investment. The AUD is up 0.5% to 0.7945 and the NZD's underperformance saw NZD/AUD break below the March

low of 0.9074, opening up a gap to the next level of technical support around the 0.89 mark. The cross currently sits at 0.9035.

The US data only had a small impact on the rates market. The US 10-year rate is flat for the day at 2.13%, after spending much of the Asian trading session around the 2.15% mark. The Fed Funds market only shows about a 1 in 3 chance of another hike this year, while one has to look as far out as early 2019 to see another full 25bps hike priced in.

The local rates curve saw a steepening bias, with global forces in the driving seat. The 2-year rate closed 1bp higher at 2.20% and the 10-year rate was 3bps higher to 3.16%. The Australian 10-yr bond future spat the dummy yesterday, rising by 5bps in no time, but that move has reversed overnight and this could a little downward pressure on NZ rates on the open.

Markets should settle through the local trading session today, as the focus turns to tonight's US employment report. We're expecting monthly wage data to

underwhelm, reflecting technical factors like the timing of the survey, so no fuel there to support a USD or rates turnaround.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ Terms of trade (q/q%)	Q2	3.0	5.1	10:45
CH Caixin PMI manufacturing	Aug	51.0	51.1	13:45
UK Markit PMI manufacturing	Aug	55	55.1	20:30
US Change in nonfarm payrolls ('000)	Aug	180	209	00:30
US Unemployment rate (%)	Aug	4.3	4.3	00:30
US Average hourly earnings (m/m%)	Aug	0.2	0.3	00:30
US Average hourly earnings (y/y%)	Aug	2.6	2.5	00:30
US ISM manufacturing	Aug	56.5	56.3	02:00
US U. of Mich. sentiment	Aug F	97.4	97.6	02:00
US Construction spending (m/m%)	Jul	0.5	-1.3	02:00

Source: Bloomberg, BNZ

Foreign Exchange					Equities				Commodities**				
Indicative overnight ranges (*)					Major Indices				Price				
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day		
NZD	0.7178	-0.3	0.7132	0.7183	S&P 500	2,471	+0.5	13.8	Oil (Brent)	52.31	+2.9		
AUD	0.7946	+0.5	0.7871	0.7948	Dow	21,959	+0.3	19.3	Oil (WTI)	47.05	+2.4		
EUR	1.1900	+0.1	1.1823	1.1910	Nasdaq	6,426	+0.9	23.3	Gold	1321.2	+0.8		
GBP	1.2929	+0.0	1.2853	1.2933	Stoxx 50	3,421	+0.5	13.2	HRC steel	632.0	-0.9		
JPY	110.01	-0.2	109.91	110.67	FTSE	7,431	+0.9	9.6	CRB	180.9	+2.3		
CAD	1.2501	-1.0			DAX	12,056	+0.4	13.8	Wheat Chic.	434.5	+1.1		
NZD/AUD	0.9033	-0.9			CAC 40	5,086	+0.7	14.6	Sugar	14.40	+3.5		
NZD/EUR	0.6032	-0.5			Nikkei	19,646	+0.7	16.1	Cotton	71.48	+0.0		
NZD/GBP	0.5552	-0.4			Shanghai	3,361	-0.1	9.7	Coffee	129.4	+0.9		
NZD/JPY	78.97	-0.5			ASX 200	5,715	+0.8	5.5	WM powder	3250.0	+0.0		
NZ TWI	75.40	-0.5			NZX 50	7,817	+0.5	5.3	Australian Futures				
									3 year bond	97.98	0.01		
									10 year bond	97.33	0.00		
Interest Rates					NZ Government Bonds				NZ Swap Yields				
	Rates		Swap Yields		Benchmark 10 Yr Bonds		Last		Last				
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day							
USD	1.25	1.32	1.53	2.07	USD	2.12	-0.01	NZGB 3 04/15/20	2.03	-0.01	1 year	2.02	-0.00
AUD	1.50	1.72	1.95	2.82	AUD	2.71	0.04	NZGB 6 05/15/21	2.19	0.00	2 year	2.20	0.01
NZD	1.75	1.96	2.20	3.16	NZD	2.91	0.02	NZGB 5 1/2 04/15/23	2.49	0.00	5 year	2.67	0.02
EUR	0.00	0.06	-0.19	0.79	GER	0.36	0.00	NZGB 2 3/4 04/15/25	2.75	0.02	7 year	2.91	0.03
GBP	0.25	0.28	0.54	1.13	GBP	1.03	0.00	NZGB 4 1/2 04/15/27	2.91	0.02	10 year	3.16	0.03
JPY	-0.06	-0.03	0.02	0.20	JPY	0.01	-0.00	NZGB 3 1/2 04/14/33	3.29	0.02	15 year	3.41	0.04
CAD	0.75	1.17	1.62	2.15	CAD	1.86	0.02	NZGB 2 3/4 04/15/37	3.55	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 06:57

Source: Bloomberg

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