

2 November 2017



Events Round-Up

NZ: Unemployment rate (%), Q3: 4.6 vs. 4.7 exp.
NZ: Employment (q/q%), Q3: 2.2 vs. 0.8 exp.
NZ: LCI pvt wages x overtime (q/q%), Q3: 0.7 vs. 0.7 exp.
NZ: QES avg hourly earnings (q/q%), Q3: 1.2 vs. 1.1 exp.
CH: Caixin PMI manufacturing, Oct: 51.0 vs. 51.0 exp.
UK: Markit PMI manufacturing, Oct: 56.3 vs. 55.9 exp.
US: ADP employment change ('000), Oct: 235 vs. 200 exp.
US: ISM manufacturing, Oct: 58.7 vs. 59.5 exp.
US: Construction spending (m/m%), Sep: 0.3 vs. -0.2 exp.
NZ: QV house prices (y/y%), Oct: 3.9 vs. 4.3 prev.
US: FOMC rate decision, Nov: 1.1-25 vs. 1-1.25 exp.

Good Morning

The NZD has been the star performer, rising across the board after strong employment data and sustaining that increase. Overnight trading was quiet ahead of the FOMC's announcement this morning, which ended up the non-event it was widely expected to be.

The FOMC Statement was very similar to the September version, with the changes largely a result of tweaks to language around the Hurricanes. There was recognition that economic activity has been rising "at a solid rate", despite Hurricane-related disruptions. Inflation excluding food and energy was said to have "remained soft", a nod to the recent path of inflation despite the stronger economy. Overall, the Statement keeps alive the likelihood of a December rate hike and the market reaction has been muted as I write.

The NZD rose yesterday after employment data were much stronger than expected, driving the unemployment rate down to its lowest level in almost 9-years to 4.6%. Wage inflation showed the expected pick-up, albeit it was inflated by the recent pay equity settlement for care workers. The NZD has hovered around the 0.69 mark since the release, and met some resistance around 0.6930 last night. The strong data obviously squeezed out some short positions, and our view remains that the NZD is oversold, building in an unnecessary political risk premium over recent weeks. We think it can recover further, with next Thursday's RBNZ MPS a potential domestic source of NZD support.

Outside the recovery of the NZD, the other majors didn't show much movement both pre and post the FOMC announcement. NZD/AUD met some resistance around 0.9020 and now trades at 0.8985. The NZD is up 0.9-1.0% against GBP, EUR and JPY. The USD TWI majors index has tracked sideways and currently sits 0.1% higher for the session.

The local rates market reaction to the employment data was fairly modest, with the 2-year swap rate ending the day just 2bps higher and pricing for the first rate hike still in the distant future in early-2019. The 10-year swap rate closed up 3bps to 2.18%.

This morning saw the embargoed release of QV NZ house price data. Prices rose by just 3.9% y/y in October, a 5-year low, dragged down by a 0.6% fall in Auckland house prices. No real surprise there.

In other news, the long-awaited US tax bill has been delayed by at least another day as Republicans argue over the plan. This is keeping a lid on US equities. The US ISM was slightly weaker than expected, but coming off a 13-year high it didn't really raise any eyebrows. ADP employment rebounded and sets the scene for a hurricane-affected 300k+ leap in US employment in Friday's release.

US 10-year yields hovered around 2.39% and failed to break the 2.40%, before a refunding announcement helped send rates lower. The US Treasury will keep longer-term debt issuance unchanged at \$62bn for the seventh straight quarter but indicated a likely rise next quarter as funding needs increase. There was no comment on issuing ultra-long bonds. The 10-year rate sits at 2.36%, down 3bps from the local close.

The focus tonight turns to the BoE rate decision. A 25bps hike, the first in a decade, is well priced with attention on whether the Bank sees this as a one-off or the series of hikes ahead. The market currently believes that another rate hike won't come until the second half of next year. Trump will announce the next Fed chair sometime tomorrow morning NZ time, with the smart money on current Fed Governor Powell, which should be well-anticipated. If Taylor got the nod then we'd probably see a knee-jerk reaction of higher US rates and a higher USD.

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Coming Up

	Period	Cons.	Prev.	NZT
AU Trade balance (\$m)	Sep	1200	989	13:30
AU Building approvals (m/m%)	Sep	-1	0.4	13:30
GE Unemployment rate (%)	Oct	5.6	5.6	21:55
UK Markit construction PMI	Oct	48.5	48.1	22:30
UK Bank of England bank rate	Nov	0.5	0.25	01:00
US Fed's Powell speaks at alternative reference rates event				01:30
US Nonfarm productivity	Q3	2.6	1.5	01:30

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	0.6896	+0.7	0.6883	0.6931	CHF	1.0022	+0.5		S&P 500	2,578	+0.1	22.1	Oil (Brent)	60.51	-0.8
AUD	0.7675	+0.2	0.7657	0.7696	SEK	8.394	+0.2		Dow	23,429	+0.2	29.9	Oil (WTI)	54.32	-0.2
EUR	1.1622	-0.2	1.1606	1.1657	NOK	8.143	-0.3		Nasdaq	6,712	-0.2	30.2	Gold	1278.8	+0.7
GBP	1.3260	-0.2	1.3249	1.3321	HKD	7.801	-0.0		Stoxx 50	3,697	+0.6	22.3	HRC steel	605.0	+0.0
JPY	114.04	+0.4	113.73	114.28	CNY	6.602	-0.5		FTSE	7,488	-0.1	8.3	CRB	187.7	+0.1
CAD	1.2880	-0.1			SGD	1.360	-0.2		DAX	13,466	+1.8	26.3	Wheat Chic.	435.5	-0.1
NZD/AUD	0.8985	+0.4			IDR	13,580	+0.1		CAC 40	5,514	+0.8	23.4	Sugar	14.61	-0.6
NZD/EUR	0.5934	+1.0			THB	33.13	-0.3		Nikkei	22,420	+1.9	30.8	Cotton	68.28	-0.2
NZD/GBP	0.5201	+0.9			KRW	1,114	-0.5		Shanghai	3,396	+0.1	9.4	Coffee	123.0	-1.8
NZD/JPY	78.64	+1.1			TWD	30.15	-0.0		ASX 200	5,938	+0.5	13.6	WMI powder	2920.0	-1.2
NZD/CAD	0.8882	+0.6			PHP	51.61	+0.1		NZX 50	8,054	-1.1	17.5	Australian Futures		
NZ TWI	73.29	+0.6											3 year bond	97.99	0.01
													10 year bond	97.30	0.02

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	
USD	1.25	1.38	1.82	2.34	USD	2.36	-0.02	1 year	2.02	0.00
AUD	1.50	1.70	1.91	2.85	AUD	2.70	0.04	2 year	2.17	0.02
NZD	1.75	1.94	2.16	3.18	NZD	2.94	0.02	5 year	2.64	0.02
EUR	0.00	0.06	-0.20	0.85	GER	0.37	0.01	7 year	2.90	0.02
GBP	0.25	0.44	0.88	1.39	GBP	1.34	0.01	10 year	3.18	0.03
JPY	-0.04	-0.04	0.04	0.26	JPY	0.06	-0.01	15 year	3.43	0.03
CAD	1.00	1.17	1.78	2.30	CAD	1.97	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 07:17

Source: Bloomberg

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