

2 October 2017

Events Round-Up

NZ: Building permits (m/m%)m Aug: 10.2 vs. -0.7 prev.
UK: GfK consumer confidence, Sep: -9 vs. -11 exp.
JN: CPI ex fresh food, energy (y/y%), Aug: 0.2 vs. 0.2 exp.
JN: Industrial production (m/m%), Aug: 2.1 vs. 1.8 exp.
GE: Unemployment claims rate (%), Sep: 5.6 vs. 5.7 exp.
EC: CPI (y/y%), Sep: 1.5 vs. 1.6 exp.
EC: CPI core (y/y%), Sep: 1.1 vs. 1.2 exp.
US: Personal income (m/m%), Aug: 0.2 vs. 0.2 exp.
US: Personal spending (m/m%), Aug: 0.1 vs. 0.1 exp.
US: PCE deflator (m/m%), Aug: 0.2 vs. 0.3 exp.
US: PCE deflator core (m/m%), Aug: 0.1 vs. 0.2 exp.
US: PCE deflator core (y/y%), Aug: 1.3 vs. 1.4 exp.
US: Chicago purchasing manager, Sep: 65.2 vs. 58.7 exp.
CH: Manufacturing PMI, Sep: 52.4 vs. 51.6 exp.
CH: Non-manufacturing PMI, Sep: 55.4 vs. 53.4 prev.
CH: Caixin manufacturing PMI, Sep: 51.0 vs. 51.5 exp.

Good Morning

The September quarter ended on a fairly uneventful note. There was a lot of data to digest on Friday but the net result was only modest changes in currency markets. US Treasury yields ticked higher, the S&P500 made yet another record high, while the VIX index remained near its fearless level of 9.5.

It was a busy economic calendar and the focus for the day was on the US PCE deflators. After previously released CPI data had showed an uptick in inflation after a weak run, there were high hopes that the PCE deflators would show the same. But the data underwhelmed, with the core PCE deflator coming in at 0.1% m/m for the fourth consecutive month and taking the annual increase down to a fresh low of 1.3%, further away from the Fed's 2% target.

However, market reaction to the release was fairly minimal and there was a larger market reaction when the WSJ reported that Trump had met with former Fed Governor Warsh to discuss his potential nomination as the next Fed chairman, and this was followed closely by a stronger than expected Chicago PMI reading. Investors perceive Warsh as more hawkish than other candidates, including the current chair Yellen. Trump has also

interviewed current Fed governor Powell, National Economic Council Director Cohn and chair Yellen for the role, with others in the mix as well. Trump said that he'll make his decision in two to three weeks.

The US 10-year Treasury yield fell by 1.5bps to a low of around 2.2950% after the weak inflation figures, and then added nearly 4bps after the WSJ article and Chicago PMI data, to end the day just over the 2.33% mark, its highest close in five weeks. The Fed is seen to be unperturbed by that inflation data, with the odds of a Fed hike in December nudging up towards 70%. The Fed will have three more CPI figures released before it has to make its decision, providing plenty of opportunity to support its view that recent weak inflation has been driven by temporary forces.

The USD maintained a fairly tight range for the day and ended the session flat. The NZD was fairly flat as well for much of the day, closing the week around 0.7210 as it dipped towards the lower end of its range near the NY close. On Saturday after the markets were closed, China PMI data were released and the official measures were strong, with the manufacturing index up to a 5-year high. This might boost the commodity currencies as the new week of trading begins. NZD/AUD has spent most of the last couple of days hovering around the 0.92 mark, which is where it closed at the end of the week.

There's little to say about the other major currencies, with all of them closing the day within +/- 0.3% of the USD and month-end flows likely having more impact on the market than economic drivers. Of the majors, EUR modestly outperformed, despite euro-area inflation data, like the US, coming in a little softer than expected. EUR nudged up through the 1.18 mark, while NZD/EUR closed the week down at around 0.61.

The local rates market only showed small movements on Friday, with yields across the bond and swap curve not moving by more than 1bp. Strong NZ building consent data, which showed dwelling consents at a 13-year high, were ignored. The data support our view that construction will return to being a support to economic growth in the second half of the year following a mild dip in the first half.

It should be a fairly quiet local session to begin the new quarter. US ISM data will be released tonight but will likely be distorted by the series of hurricanes to hit the country, as will a lot of US data over coming weeks. The

same applies for the important US employment report at the end of the week, although this might apply less to the wages data, which are expected to tick higher and support the Fed's view of further tightening ahead.

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Coming Up

		Period	Cons.	Prev.	NZT
JN	Tankan large manufacturers index	Q3	18	17	12:50
UK	Markit PMI manufacturing	Sep	56.2	56.9	21:30
EC	Unemployment rate (%)	Aug	9.0	9.1	22:00
US	ISM manufacturing	Sep	58.0	58.8	03:00
US	Construction spending (m/m%)	Aug	0.4	-0.6	03:00
US	Fed's Kaplan speaks in El Paso				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	0.7209	-0.4	0.7207	0.7244	CHF	0.9683	-0.2			S&P 500	2,519	+0.4	16.2	Oil (Brent)	56.79	-0.6
AUD	0.7834	-0.3	0.7817	0.7854	SEK	8.148	+0.4			Dow	22,405	+0.1	22.4	Oil (WTI)	51.67	+0.2
EUR	1.1814	+0.2	1.1773	1.1833	NOK	7.963	+0.3			Nasdaq	6,496	+0.7	22.3	Gold	1281.5	-0.3
GBP	1.3398	-0.3	1.3350	1.3426	HKD	7.811	-0.0			Stoxx 50	3,595	+0.9	19.7	HRC steel	599.0	+0.0
JPY	112.51	+0.2	112.22	112.74	CNY	6.653	-0.1			FTSE	7,373	+0.7	6.9	CRB	183.1	+0.1
CAD	1.2472	+0.4			SGD	1.358	-0.0			DAX	12,829	+1.0	22.1	Wheat Chic.	466.5	-1.6
NZD/AUD	0.9202	-0.1			IDR	13,472	-0.3			CAC 40	5,330	+0.5	19.8	Sugar	14.10	+1.3
NZD/EUR	0.6102	-0.6			THB	33.31	-0.2			Nikkei	20,356	-0.0	23.7	Cotton	69.08	-0.7
NZD/GBP	0.5381	-0.1			KRW	1,145	-0.3			Shanghai	3,349	+0.3	11.5	Coffee	128.1	-0.4
NZD/JPY	81.11	-0.2			TWD	30.32	-0.2			ASX 200	5,682	+0.2	4.5	WM powder	3300.0	+3.8
NZD/CAD	0.8991	-0.0			PHP	50.87	-0.1			NZX 50	7,930	+0.2	7.7	Australian Futures		
NZ TWI	76.32	-0.4														
3 year bond 97.82 0.02																
10 year bond 97.13 -0.01																
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	1.34	1.74	2.29	USD	2.33	0.03	NZGB 3 04/15/20	2.09	0.01	1 year	2.04	0.01			
AUD	1.50	1.71	2.04	3.00	AUD	2.84	-0.02	NZGB 6 05/15/21	2.24	0.00	2 year	2.22	0.01			
NZD	1.75	1.96	2.22	3.27	NZD	2.97	-0.01	NZGB 5 1/2 04/15/23	2.54	0.00	5 year	2.75	0.01			
EUR	0.00	0.06	-0.17	0.91	GER	0.46	-0.02	NZGB 2 3/4 04/15/25	2.81	-0.01	7 year	3.01	0.01			
GBP	0.25	0.33	0.81	1.42	GBP	1.37	-0.01	NZGB 4 1/2 04/15/27	2.97	-0.01	10 year	3.27	0.01			
JPY	-0.05	-0.05	0.03	0.26	JPY	0.07	-0.01	NZGB 3 1/2 04/14/33	3.31	-0.01	15 year	3.50	0.01			
CAD	1.00	1.17	1.87	2.36	CAD	2.10	-0.03	NZGB 2 3/4 04/15/37	3.52	-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: NY Close Sat morning

Source: Bloomberg

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