

# RESEARCH

## Markets Today

3 November 2017



### Events Round-Up

AU: Trade balance (\$m), Sep: 1745 vs. 1200 exp.  
AU: Building approvals (m/m%), Sep: 1.5 vs. -1.0 exp.  
GE: Unemployment rate (%), Oct: 5.6 vs. 5.6 exp.  
UK: Markit construction PMI, Oct: 50.8 vs. 48.5 exp.  
UK: Bank of England bank rate (%), Nov: 0.5 vs. 0.5 exp.  
US: Nonfarm productivity, Q3: 3.0 vs. 2.6 exp.

### Good Morning

GBP was slammed after the BoE's "dovish hike" and the markets sees the US tax bill as a bit underwhelming, keeping the USD in check and helping nudge UST yields lower.

The key market mover overnight was a 1½% drop in GBP to 1.3050 after the Bank of England voted 7-2 to raise its policy rate for the first time in a decade by 25bps to 0.5%, but offered a dovish outlook. The UK 10-year rate fell by 8bps to 1.26%. Previous statements have said that more hikes could be needed than financial markets expect, but the Bank omitted that language this time. The projections assumed market expectations of two more hikes over the next three years, and that would get CPI inflation down to slightly over 2%, suggesting a fairly benign outlook for the policy rate ahead. NZD/GBP is 2% to around 0.53.

The USD slipped after reports yesterday morning suggested that Powell had got the nod for the new Fed Chair. We await the official announcement this morning. The USD TWI majors index has tracked sideways since. Details of the widely anticipated tax bill have emerged and they haven't really stirred the market. The corporate tax rate will be cut from 35% to 20% and the bill would impose a tax of 12 percent on multinational companies' accumulated offshore earnings, slightly higher than anticipated. The individual top tax rate will remain unchanged the number of bands will be reduced and the bill would cap the mortgage-interest deduction on new home sales at \$500,000. Further negotiations need to take place and a number of hurdles remain for the bill to be passed.

The US 10-year rate nudged down to 2.36% after the Powell-leak yesterday and has slipped further to 2.34-2.35% after the detail around the tax bill has emerged.

The NZD trades at a similar level to the local close around

0.6920, having risen earlier as the USD came under pressure during the local session. We've seen some resistance come in around 0.6930-0.6940 over the last couple of sessions. We think there's room for the NZD to recover further as domestic political risks fade, with an eye on next week's RBNZ MPS as an additional possible source of upward pressure.

The soft USD backdrop and better than expected trade and building approvals data have supported the AUD, albeit with no further progress overnight, trading around 0.7720. NZD/AUD has traded in a fairly tight range overnight and sits this morning at 0.8970.

Much of the modest gains for NZD/EUR and NZD/JPY were seen in the local trading session yesterday, with overnight moves muted. The crosses are at 0.5935 and just under 79 respectively.

Global forces helped nudge NZ rates down, with slightly lower UST rates and a squeeze in Australian 10-year bond futures helping the NZ 10-year government rate fall 4bps to 2.89%. That took the NZ-US 10 spread down to 53bps, its lowest level since 1999 – showing no signs of a domestic political risk premium or concerns about a likely increase in the bond tender programme as NZ fiscal policy eases. Relative NZ-US monetary policy is the dominant force at present. We do wonder how much longer that can continue but offshore players still seem keen to receive NZ rates. The 2-year swap rate fell by 1bp to 2.16% and the 10-year rate fell by 3bps to 3.15%.

The focus tonight turns to the US employment report, which is expected to show a large bounce-back (+310k) in non-farm payrolls from the hurricane-distorted reading the previous month. Just as important will be the unemployment rate and wage data.

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### Coming Up

	Period	Cons.	Prev.	NZT
AU Retail sales (m/m%)	Sep	0.4	-0.6	13:30
AU Retail sales ex inflation (q/q%)	Q3	0.0	1.5	13:30
CH Caixin PMI services	Oct		50.6	14:45
UK Markit services PMI	Oct	53.3	53.6	22:30
US Chge in nonfarm payrolls ('000)	Oct	310	-33	01:30
US Unemployment rate (%)	Oct	4.2	4.2	01:30
US Average hrly earnings (m/m%)	Oct	0.2	0.5	01:30
US Average hrly earnings (y/y%)	Oct	2.7	2.9	01:30
US ISM non-manufacturing	Oct	58.5	59.8	03:00

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	0.6920	+0.5	0.6890	0.6937	CHF	0.9995	-0.3			S&P 500	2,577	-0.1	22.8	Oil (Brent)	60.55	+0.3
AUD	0.7716	+0.5	0.7695	0.7730	SEK	8.390	-0.1			Dow	23,468	+0.1	30.7	Oil (WTI)	54.40	+0.3
EUR	1.1656	+0.3	1.1626	1.1687	NOK	8.137	-0.1			Nasdaq	6,710	-0.1	31.4	Gold	1277.4	+0.1
GBP	1.3052	-1.5	1.3051	1.3289	HKD	7.803	+0.0			Stoxx 50	3,689	-0.2	23.8	HRC steel	612.0	+1.2
JPY	114.09	-0.1	113.54	114.22	CNY	6.609	+0.1			FTSE	7,555	+0.9	10.4	CRB	188.0	+0.1
CAD	1.2817	-0.4			SGD	1.360	-0.0			DAX	13,441	-0.2	29.6	Wheat Chic.	443.0	+1.6
NZD/AUD	0.8968	-0.0			IDR	13,552	-0.2			CAC 40	5,511	-0.3	24.8	Sugar	14.23	-2.6
NZD/EUR	0.5937	+0.2			THB	33.10	-0.1			Nikkei	22,539	+0.5	31.5	Cotton	69.03	+1.6
NZD/GBP	0.5302	+2.0			KRW	1,114	-0.0			Shanghai	3,383	-0.4	8.1	Coffee	127.0	+2.8
NZD/JPY	78.95	+0.4			TWD	30.20	+0.2			ASX 200	5,932	-0.1	13.5	WM powder	2920.0	+0.0
NZD/CAD	0.8869	+0.1			PHP	51.41	-0.4			NZX 50	8,083	+0.4	19.2	<b>Australian Futures</b>		
NZ TWI	73.49	+0.4												3 year bond	98	0.02
														10 year bond	97.35	0.05
<b>Interest Rates</b>																
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	1.38	1.83	2.33	USD	2.35	-0.03	NZGB 3 04/15/20	1.98	-0.02	1 year	2.02	0.00			
AUD	1.50	1.70	1.90	2.82	AUD	2.65	-0.05	NZGB 6 05/15/21	2.12	-0.03	2 year	2.16	-0.01			
NZD	1.75	1.95	2.16	3.15	NZD	2.89	-0.04	NZGB 5 1/2 04/15/23	2.41	-0.03	5 year	2.62	-0.02			
EUR	0.00	0.06	-0.20	0.84	GER	0.37	-0.00	NZGB 2 3/4 04/15/25	2.69	-0.04	7 year	2.88	-0.02			
GBP	0.50	0.45	0.80	1.32	GBP	1.26	-0.08	NZGB 4 1/2 04/15/27	2.89	-0.04	10 year	3.15	-0.03			
JPY	-0.04	-0.04	0.03	0.25	JPY	0.06	-0.01	NZGB 3 1/2 04/14/33	3.25	-0.04	15 year	3.40	-0.03			
CAD	1.00	1.17	1.78	2.28	CAD	1.96	-0.02	NZGB 2 3/4 04/15/37	3.44	-0.04						

\* 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 06:45

Source: Bloomberg

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