

3 October 2017

Events Round-Up

JN: Tankan large manufacturers index, Q3: 22 vs. 18 exp.

UK: Markit PMI manufacturing, Sep: 55.9 vs. 56.2 exp.

EC: Unemployment rate (%), Aug: 9.1 vs. 9.0 exp.

US: ISM manufacturing, Sep: 60.8 vs. 57.5 exp.

US: Construction spending (m/m%), Aug: 0.5 vs. 0.4 exp.

Good Morning

The new quarter has kicked off where the last one ended, with a stronger USD across the board, fresh highs in US equities, and the VIX index hovering around historical lows. UST yields have peeled off after earlier reaching a fresh 2½-month high.

On the economic front we've seen a string of positive business confidence data, with multi-year highs being achieved across the world. As we reported yesterday, the official China PMIs released on Saturday rose with the manufacturing index at a 5-year high. To that we can add Japan's Tankan survey, showing confidence amongst large manufacturers at their highest level in over a decade and final euro-area PMI data at a 6½-year high. The US ISM manufacturing index was meant to be softer as a result of the hurricanes but instead rose to a 13-year high, with strong new orders and employment sub components. The UK is the only region dragging the chain, with its manufacturing PMI slipping in August, despite the weaker GBP over the past year.

Amidst all that data it is difficult to detect much market reaction. For currencies, it appears that political developments have dominated. The worst performing currency is GBP, which has shown a steady fall of nearly 1% to 1.3275, as the annual conference of the Conservative Party begins. There have been calls for PM May to sack foreign secretary Boris Johnson, who has been outspoken about her Brexit strategy and undermined her authority. GBP was well down even before the softer PMI data were released.

Sunday's illegal independence referendum in the Spanish region of Catalonia seems to have impacted EUR, which fell on the open yesterday and has extended losses. Leaders of the region have threatened to declare independence after the "successful" vote. EUR is down 0.6% to 1.1740 and is now down more than 2 big figures since Germany's shock election result more than a week ago.

There's not much to say about the NZD, which is down a touch to around 0.72, a level it has hovered around for the past five trading sessions. Against our short term fair value model it looks a little cheap, against the backdrop of risk appetite reaching its highest level this year and stronger NZ export commodity prices recently. But it is finding it difficult to made headway against the broadly-based USD recovery. Some of the crosses are stronger, with NZD/GBP up 0.7% to 0.5420 and NZD/EUR up 0.5% to 0.6130. NZD/AUD is flat around 0.92 and NZD/JPY is flat at 81.1.

The movement in UST yields is a bit of a mystery. The 10-year yield continued to track higher during the local and Asian trading session on no fresh news, reaching a fresh high of 2.37% last evening, before beginning to fall. Reports of a shooter in Las Vegas were beginning to hit the screens at that time and we're not sure if that was behind the reversal. This morning it is sad to read that the event was the deadliest mass shooting in modern US history. Some support in yields was reached around the low of 2.32%, before ticking 1bp higher after the strong ISM report. The current yield is 2.335%, down around 2bps from the level at the NZ close.

The local rates market was dead yesterday, given the Australian holiday. There was a slight uptick in rates at the long end of the curve of about 2bps, as yields were marked higher as UST yields drifted higher. Today's NZ QSBO isn't expected to be a market mover and neither is the RBA's statement later this afternoon. The RBA is expected to maintain a neutral tone, despite recognition of a slightly better economic outlook. Tonight sees another GDT dairy auction, and with whole milk powder future prices rising recently, it is expected to show positive price momentum.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Qtrly survey of business opin. (net%)	Q3		18	10:00
AU	Building approvals (m/m%)	Aug	1	-1.7	13:30
AU	RBA cash rate target (%)	Oct	1.5	1.5	16:30
UK	Markit construction PMI	Sep	51.1	51.1	21:30
NZ	GDT dairy auction avg winning price			3368	
NZ	QV house prices (y/y%)	Sep		4.8	05:00

Source: Bloomberg, BNZ

Foreign Exchange							Equities				Commodities**			
Indicative overnight ranges (*)					Other FX		Major Indices				Price			
	Last	% Day	Low	High		Last	% Day			Last	% Day	Net Day		
NZD	0.7200	-0.1	0.7168	0.7218	CHF	0.9749	+0.7	S&P 500	2,527	+0.3	16.5	Oil (Brent)	55.92	-1.4
AUD	0.7829	-0.1	0.7796	0.7840	SEK	8.165	+0.2	Dow	22,534	+0.6	23.1	Oil (WTI)	50.46	-2.2
EUR	1.1739	-0.6	1.1730	1.1780	NOK	7.997	+0.4	Nasdaq	6,506	+0.2	22.5	Gold	1273.0	-0.7
GBP	1.3279	-0.9	1.3257	1.3375	HKD	7.811	+0.0	Stoxx 50	3,603	+0.2	20.0	HRC steel	595.0	-0.7
JPY	112.69	+0.2	112.53	113.06	CNY	6.653	-0.1	FTSE	7,439	+0.9	7.8	CRB	180.8	-1.2
CAD	1.2512	+0.3			SGD	1.362	+0.3	DAX	12,903	+0.6	22.8	Wheat Chic.	461.8	-1.1
NZD/AUD	0.9197	-0.1			IDR	13,540	+0.5	CAC 40	5,350	+0.3	20.3	Sugar	14.31	+1.5
NZD/EUR	0.6133	+0.5			THB	33.42	+0.3	Nikkei	20,401	+0.2	22.9	Cotton	69.08	-0.7
NZD/GBP	0.5422	+0.8			KRW	1,147	+0.1	Shanghai	3,349	+0.3	11.5	Coffee	127.2	-0.9
NZD/JPY	81.14	+0.0			TWD	30.43	+0.4	ASX 200	5,729	+0.8	4.6	WM powder	3300.0	+0.0
NZD/CAD	0.9009	+0.2			PHP	51.09	+0.4	NZX 50	7,929	-0.0	7.5	Australian Futures		
NZ TWI	76.30	+0.1										3 year bond	97.81	-0.01
												10 year bond	97.12	-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	1.33	1.75	2.30	USD	2.34	0.00	NZGB 3 04/15/20	2.10	0.01	1 year	2.03	-0.00	
AUD	1.50	1.71	2.05	3.02	AUD	2.84	0.00	NZGB 6 05/15/21	2.25	0.01	2 year	2.22	0.00	
NZD	1.75	1.95	2.22	3.29	NZD	2.99	0.02	NZGB 5 1/2 04/15/23	2.56	0.02	5 year	2.76	0.01	
EUR	0.00	0.06	-0.17	0.91	GER	0.45	-0.01	NZGB 2 3/4 04/15/25	2.83	0.02	7 year	3.03	0.02	
GBP	0.25	0.34	0.81	1.38	GBP	1.33	-0.04	NZGB 4 1/2 04/15/27	2.99	0.02	10 year	3.29	0.02	
JPY	-0.06	-0.05	0.04	0.27	JPY	0.08	0.01	NZGB 3 1/2 04/14/33	3.33	0.02	15 year	3.54	0.04	
CAD	1.00	1.17	1.90	2.39	CAD	2.12	0.02	NZGB 2 3/4 04/15/37	3.54	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 06:59

Source: Bloomberg

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