

4 December 2017



Events Round-Up

- NZ: Terms of trade (q/q%), Q3: 0.7 vs. 1.3 exp.
- JN: CPI ex fresh food, energy (y/y%), Oct: 0.2 vs. 0.2 exp.
- CH: Caixin PMI manufacturing, Nov: 50.8 vs. 50.9 exp.
- UK: Markit PMI manufacturing, Nov: 58.2 vs. 56.5 exp.
- CA: GDP (m/m%), Sep: 0.2 vs. 0.1 exp.
- CA: Change in employment ('000), Sep: 79.5 vs 10.0 exp.
- CA: Unemployment rate, Sep: 5.9 vs. 6.2 exp.
- US: ISM manufacturing, Nov: 58.2 vs. 58.3 exp.
- US: Construction spending (m/m%), Oct: 1.4 vs. 0.5 exp.

Good Morning

It was a volatile Friday night trading session with the net result being slightly weaker US equities, lower global bond rates and a weaker USD. The NZD made up some lost ground.

It was all looking like an uneventful end to the week until news hit the screens that former US national security adviser Michael Flynn pleaded guilty to lying to the FBI about his communications with the Russian ambassador to the US. ABC news reported that Mr Flynn was prepared to testify that Mr Trump directed him to make contact with Russian officials during the transition. US stocks plunged as much as 1.6%, the US 10-year rate dived 10bps to 2.32% and the USD came under significant pressure.

These losses were pared as bargain hunters came in and the reversal was further supported by Senate Majority Leader McConnell reporting that the Republicans had the numbers to pass the long-debated tax reform bill. After the close the Senate approved the bill by a slim majority with this week's task now being the reconciliation progress between the House and Senate versions of the bill. Something closer to the Senate version is more likely, which still adds unnecessary stimulus to the US economy at a time when full employment has been reached. It adds to the case for further Fed tightening next year, with a rate hike later this month already largely fully priced.

The S&P500 ended the session down by only 0.2%, while the US 10-year rate ended the day down by "only" 5bps to 2.36%. European bond markets were caught in the swing of the action, with Germany's 10-year rate falling by 6bps to 0.30%, its lowest level in nearly 3-months.

Over the weekend, the ABC news item that caused the plunge in risk appetite has proved to be false, but a tweet from Trump (that suggests he knew about Flynn lying to the FBI) could bolster an obstruction of justice case against him. This story isn't over yet.

The USD TWI major index ended the session down 0.6%, with a stronger CAD leading the charge, after a blockbuster Canadian jobs report. Much stronger than expected employment dragged the unemployment rate down to a decade-low and this saw expectations for the next BoC rate hike brought forward to March 2018. USD/CAD fell by 1.6% to 1.2685.

The NZD was the next top performer, showing a deserved recovery after becoming oversold post Thursday's weak business outlook survey. It ended the week around 0.6890, up 0.9% from the local close. NZD was stronger on all the crosses (except against the CAD). NZD/AUD closed the week around 0.9050.

EUR and GBP were the two weakest majors, even slipping a little against the beleaguered USD. Economic data took a back seat, with the market largely ignoring a stronger than expected UK manufacturing PMI. GBP slipped 0.4% to 1.3480, perhaps reflecting some profit-taking a strong run on optimism that trade talks between the EU and UK might soon be able to begin. NZD crosses against these currencies were up in the order of 1% for the day, with NZD/GBP back up through 0.51 and NZD/EUR just under 0.58.

There was a slight downward bias to the local rates market on Friday, with the swaps curve down 1bp. This saw the 2-year rate close at 2.14% and the 10-year rate at 3.08%, getting close to fresh year-to-date lows. This week only second-tier data are released so the biggest potential market mover is Acting Governor Spencer's speech tomorrow with the title, "Low inflation and its implications for monetary policy".

On the global front we'll be watching closely to see how Trump (and family) is implicated in the Flynn affair and further debate on US tax reform while on the economic front the US employment report at the end of the week is a key focus.

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Coming Up

	Period	Cons.	Prev.	NZT
UK Markit/CIPS UK Construction PMI	Nov	51.0	50.8	22:30

Source: Bloomberg, BNZ

Foreign Exchange							Equities				Commodities**					
Indicative overnight ranges (*)				Other FX			Major Indices				Price					
	Last	% Day	Low	High		Last	% Day			Last	% Day	% Year		Last	Net Day	
NZD	0.6891	+0.9	0.6821	0.6912	CHF	0.9762	-0.8		S&P 500	2,642	-0.2	20.5		Oil (Brent)	63.73	+1.8
AUD	0.7613	+0.6	0.7556	0.7639	SEK	8.353	-0.3		Dow	24,232	-0.2	26.4		Oil (WTI)	58.36	+1.7
EUR	1.1896	-0.1	1.1851	1.1940	NOK	8.285	-0.4		Nasdaq	6,848	-0.4	30.3		Gold	1278.8	+0.4
GBP	1.3477	-0.4	1.3457	1.3542	HKD	7.813	+0.0		Stoxx 50	3,528	-1.2	17.0		HRC steel	629.0	+0.0
JPY	112.17	-0.3	111.41	112.87	CNY	6.616	+0.1		FTSE	7,300	-0.4	8.5		CRB	190.7	+0.8
CAD	1.2686	-1.6			SGD	1.346	-0.1		DAX	12,861	-1.2	22.3		Wheat Chic.	438.5	+1.3
NZD/AUD	0.9052	+0.2			IDR	13,523	-0.0		CAC 40	5,317	-0.7	17.4		Sugar	14.98	-0.7
NZD/EUR	0.5793	+0.9			THB	32.62	-0.1		Nikkei	22,819	+0.4	23.8		Cotton	75.43	+0.5
NZD/GBP	0.5113	+1.2			KRW	1,086	-0.1		Shanghai	3,318	+0.0	2.3		Coffee	129.6	+0.8
NZD/JPY	77.30	+0.5			TWD	30.01	-0.0		ASX 200	5,990	+0.3	10.0		WM powder	2910.0	+0.0
NZD/CAD	0.8742	-0.8			PHP	50.28	-0.2		NZX 50	8,189	+0.0	18.6		Australian Futures		
NZ TWI	72.79	+0.7												3 year bond	98.07	0.01
														10 year bond	97.48	0.03
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	1.49	1.96	2.36	USD	2.36	-0.05	NZGB 3 04/15/20	1.90	-0.01	1 year	1.99	-0.00			
AUD	1.50	1.75	1.89	2.70	AUD	2.53	0.04	NZGB 6 05/15/21	2.03	-0.01	2 year	2.14	-0.01			
NZD	1.75	1.91	2.14	3.08	NZD	2.72	0.00	NZGB 5 1/2 04/15/23	2.31	-0.00	5 year	2.58	-0.01			
EUR	0.00	0.06	-0.19	0.79	GER	0.31	-0.06	NZGB 2 3/4 04/15/25	2.58	0.00	7 year	2.82	-0.01			
GBP	0.50	0.52	0.84	1.32	GBP	1.23	-0.10	NZGB 4 1/2 04/15/27	2.72	0.00	10 year	3.08	-0.01			
JPY	-0.05	-0.03	0.04	0.26	JPY	0.04	-0.00	NZGB 3 1/2 04/14/33	3.08	0.00	15 year	3.32	-0.01			
CAD	1.00	1.17	1.87	2.26	CAD	1.91	0.02	NZGB 2 3/4 04/15/37	3.31	0.00						

* 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 morn

Source: Bloomberg

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