

4 September 2017

## Events Round-Up

NZ: Terms of trade (q/q%), Q2: 1.5 vs 3.0 exp.  
CH: Caixin PMI manufacturing, Aug: 51.6 vs. 51.0 exp.  
UK: Markit PMI manufacturing, Aug: 56.9 vs. 55.0 exp.  
US: Chge in nonfarm payrolls ('000), Aug: 156 vs. 180 exp.  
US: Unemployment rate (%), Aug: 4.4 vs. 4.3 exp.  
US: Avg hourly earnings (m/m%), Aug: 0.1 vs. 0.2 exp.  
US: Average hourly earnings (y/y%), Aug: 2.5 vs. 2.6 exp.  
US: ISM manufacturing, Aug: 58.8 vs. 56.5 exp.  
US: U. of Mich. sentiment, Aug F: 96.8 vs. 97.5 exp.  
US: Construction spending (m/m%), Jul: -0.6 vs. 0.5 exp.

## Good Morning

After a quiet day during local hours, markets were choppy during the Friday night trading session. The net result was strength in the CAD and AUD, with the NZD underperforming its commodity peers. Risk appetite ended the week on a positive note, with equity markets modestly higher, the VIX back down to around 10 and global rates higher.

The focus for Friday's trading was the US employment report. The 156k gain in monthly payrolls along with downward revisions was underwhelming, but after seven consecutive years of the initial payrolls estimate for August undershooting expectations, the market reaction was only temporary. The data also showed a tepid 0.1% m/m lift in wages, keeping the annual rate flat at 2.5%.

The USD TWI majors index fell by 0.5% on the result but 10 minutes later some headlines hit the Bloomberg screen viz: "ECB is said to want extreme prudence on communications, policy" and "ECB is said to see chance of QE plan not fully ready until December". This saw an immediate recovery in the USD, led by a weaker EUR. Later, the US ISM manufacturing index blasted up through expectations, recording its highest level in six years, with the employment component seeing a similar milestone. This helped sustain the USD recovery.

All this newsflow created a choppy trading environment, with the net result being the USD index closing the day flat. EUR reached as high as 1.1980 after the US employment report, but then plunged as that report came through that we might have to wait until December to get the full details of the ECB's asset-purchase plan. EUR

dropped by more than a big figure and closed the week at 1.1860. The media reports don't deny the fact that the ECB will be discussing the QE exit plan at this week's meeting and we agree that the communication strategy will have to be well thought out to avoid a Bernanke-style taper tantrum over coming months.

CAD was the best performer, as the market focuses on this week's BoC meeting. OIS pricing now shows a 57% chance of a hike, up from 45% the previous day. USD/CAD fell by 0.7% to just under 1.24, its lowest level in over two years. NZD/CAD fell by 1% to 0.8875, taking the cumulative fall over the past couple of months to 9%, but the cross remains well above our long term fair value estimate of 0.82.

The AUD remained in favour, supported by the ongoing rally in metal prices. The industrial metals subgroup of Bloomberg's commodity price index has risen by over 21% over the past couple of months. The AUD found some resistance near 0.80 and closed the week at 0.7975, up 0.4% for the day. Reflecting the AUD's favouritism, CFTC data show net long positions in the currency at their highest level in 4½ years.

By comparison, the NZD remains out of favour, with the AUD and CAD proving to be the commodity currencies of choice. It closed the week around 0.7160, taking the weekly fall to more than 1%, something it has achieved over four of the past five weeks. NZD/AUD blasted down through the 0.90 mark and closed the week at 0.8980. Key technical support levels are at least another cent lower around 0.88-0.8850.

US 10-year treasury yields, fell by 2.5bps to a low of 2.10% on the payrolls report, but this reversed pretty quickly and the rest of the day saw rates climb higher, helped by the strong ISM release. They closed the week at 2.165%, up 5bps for the day and flat for the week. The 2-year rate rose by nearly 2bps to 1.34%.

The local rates market was quiet on Friday as is typical ahead of the US payrolls report. The lift in US rates provides an upside risk source of risk on the open, but this should be tempered by the weekend reports of North Korea conducting another nuclear test and also having advanced development of a hydrogen bomb.

Apart from some possible angst around US-North Korea developments, the US holiday tonight should make for some quiet trading conditions today. The focus for the

week ahead will turn to central banks, with the ECB's key policy meeting Thursday night, RBA and Bank of Canada meetings and a number of FOMC members hitting the speaking circuit.

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Coming Up

	Period	Cons.	Prev.	NZT
UK Markit/CIPS UK Construction PMI	Aug	52.0	51.9	20:30

Source: Bloomberg, BNZ

Foreign Exchange					Equities				Commodities**				
Indicative overnight ranges (*)					Major Indices				Price				
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day		
NZD	0.7158	-0.3	0.7148	0.7207	S&P 500	2,477	+0.2	14.1	Oil (Brent)	52.72	-0.3		
AUD	0.7975	+0.4	0.7922	0.7994	Dow	21,988	+0.2	19.4	Oil (WTI)	47.29	+0.3		
EUR	1.1860	-0.4	1.1850	1.1980	Nasdaq	6,435	+0.1	23.1	Gold	1326.6	+0.6		
GBP	1.2951	+0.2	1.2906	1.2995	Stoxx 50	3,444	+0.7	14.1	HRC steel	638.0	+0.6		
JPY	110.25	+0.2	109.56	110.47	FTSE	7,439	+0.1	10.3	CRB	180.9	+0.0		
CAD	1.2394	-0.7			DAX	12,143	+0.7	15.3	Wheat Chic.	438.8	+1.0		
NZD/AUD	0.8976	-0.6			CAC 40	5,123	+0.4	15.4	Sugar	13.75	-4.5		
NZD/EUR	0.6035	+0.1			Nikkei	19,691	+0.2	16.3	Cotton	72.55	+1.5		
NZD/GBP	0.5527	-0.4			Shanghai	3,367	+0.2	9.8	Coffee	129.1	-0.2		
NZD/JPY	78.92	-0.0			ASX 200	5,725	+0.2	6.5	WM powder	3255.0	+0.2		
NZ TWI	75.07	-0.4			NZX 50	7,822	+0.1	5.3	<b>Australian Futures</b>				
									3 year bond	97.98	-0.02		
									10 year bond	97.33	-0.01		
<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	1.32	1.55	2.12	USD	2.17	0.05	NZGB 3 04/15/20	2.01	-0.02	1 year	2.02	0.00
AUD	1.50	1.74	1.96	2.84	AUD	2.66	-0.05	NZGB 6 05/15/21	2.16	-0.02	2 year	2.18	-0.02
NZD	1.75	1.96	2.18	3.13	NZD	2.87	-0.04	NZGB 5 1/2 04/15/23	2.45	-0.02	5 year	2.64	-0.03
EUR	0.00	0.06	-0.19	0.81	GER	0.38	0.02	NZGB 2 3/4 04/15/25	2.71	-0.03	7 year	2.88	-0.03
GBP	0.25	0.28	0.55	1.15	GBP	1.06	0.02	NZGB 4 1/2 04/15/27	2.87	-0.04	10 year	3.13	-0.03
JPY	-0.06	-0.03	0.01	0.20	JPY	0.00	-0.01	NZGB 3 1/2 04/14/33	3.25	-0.04	15 year	3.38	-0.03
CAD	0.75	1.17	1.69	2.21	CAD	1.91	0.07	NZGB 2 3/4 04/15/37	3.51	-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: NY close Sat morn

Source: Bloomberg

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