

5 December 2017



## Events Round-Up

UK: Markit construction PMI, Nov: 53.1 vs. 51.0 exp.

## Good Morning

The week has begun with a reversal of Friday's price action, with the USD recovering losses, the NZD lower, higher global bond rates and higher equity markets.

As we reported yesterday, ABC news retracted its story that former US National Security Adviser Flynn was prepared to testify against the President. This helped reverse the moves seen on Friday from the get-go on the market open, allowing the market to focus more on the tax reform bill. After Friday's close the Senate voted for the bill which sees it move to the reconciliation phase, before final sign off by the President, with the aim of getting that done and dusted by Christmas.

This has seen a broadly based recovery in the USD, taking to back to the level seen before its shift down on Friday. Overnight moves have been fairly modest, with most of the action occurring during local trading hours. The NZD opened weaker and trended lower, seeing further modest slippage overnight and trading close to its session lows around 0.6840.

The tone of Acting Governor Spencer's speech early-afternoon might well determine how the NZD fares today. The title of the speech is topical, "Low inflation and its implications for monetary policy". Many central banks have been grappling on why inflation hasn't materially picked up this cycle so far and NZ finds itself in the same position. The question is whether new structural forces are in play this cycle which changes the policy reaction function. It's an interesting debate which the Governor will be wading into. In tonight's GDT dairy auction we might see an end to the run of falling prices. The odds slightly favour an increase in average prices after falling in each of the past four auctions.

Elsewhere GBP has had a volatile session as traders anticipate the next move on Brexit negotiations. A headline last night of UK negotiator Barnier saying "we are headed" for a deal saw the GBP move 100pips higher to near 1.3540, but that proved to be a head-fake. A few hours later EC President Juncker said that it was not possible to reach a complete agreement today. This has seen GBP back down to around 1.3460. The stumbling

block to progress talks on Brexit and move towards negotiating a trade deal continues to be the dispute over the Irish border. He added that he was still confident that they could reach sufficient progress before the mid-December EU summit with UK PM May also spinning a positive tone. NZD/GBP is near the local close yesterday around 0.5090.

JPY jumped higher on Monday's open but has range-traded since, finding resistance near the 113 mark. The NZD is down on most of the crosses, but much of this occurred during the local session, with not much more progress overnight.

The US 10-year rate opened higher as Asia opened and has since traded in a tight range with a slight downward bias. It is up 3bps at 2.39% from the weekend close and down 1bp from the NZ close. European rates are also higher, reversing Friday's price action. The market doesn't seem to have reacted much to the tax deal, as it was already largely priced in. Easier fiscal policy will come at a time when the US economy is fully employed, and when the bill is reconciled the Fed will take this into account in its policy deliberations, adding to the chance of further monetary policy tightening over the year ahead. Alongside a higher US fiscal deficit and borrowing programme, it adds to the probability of upside pressure to rates across the curve next year.

In the local rates market, downward pressure remained evident for money market rates, with the 90-day bank bill rate trading down to a fresh record low of 1.90%. We've previously noted the flush liquidity conditions as banks sit on a lot of cash, with easy funding conditions and softer credit demand. This saw the 2-year swap rate marked down near its September low of 2.13% in the morning, before closing 1bp higher at 2.15%. The 10-year swap rate closed 1bp higher as well at 3.09%. Spencer's speech will be the focus today ahead of the RBA's policy decision later this afternoon, which is expected to see the neutral policy bias maintained. Tonight's key release will be the US ISM non-manufacturing index.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Building work volume (q/q%)	Q3	2.0	-0.5	10:45
NZ	RBNZ's Spencer speaks				13:15
AU	Net exports (% of GDP)	Q3	0.3	0.3	13:30
AU	Retail sales (m/m%)	Oct	0.3	0	13:30
CH	Caixin PMI composite	Nov		51.0	14:45
CH	Caixin PMI services	Nov		51.2	14:45
AU	RBA cash rate target		1.5	1.5	16:30
UK	Markit services PMI	Nov	55	55.6	22:30
EC	Retail sales (m/m%)	Oct	-0.7	0.7	23:00
NZ	GDT dairy auction avg. price			2970	
US	ISM non-manf. composite	Nov	59	60.1	04:00

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	0.6844	-0.7	0.6840	0.6870	CHF	0.9862	+1.0	S&P 500	2,653	+0.4	21.1	Oil (Brent)	62.88	-1.3		
AUD	0.7595	-0.2	0.7580	0.7614	SEK	8.432	+0.9	Dow	24,430	+0.8	27.4	Oil (WTI)	57.70	-1.1		
EUR	1.1846	-0.4	1.1829	1.1879	NOK	8.330	+0.5	Nasdaq	6,828	-0.3	29.9	Gold	1273.2	-0.4		
GBP	1.3455	-0.2	1.3414	1.3539	HKD	7.817	+0.1	Stoxx 50	3,576	+1.4	18.6	HRC steel	629.0	+0.0		
JPY	112.79	+0.6	112.68	113.09	CNY	6.620	+0.1	FTSE	7,339	+0.5	9.0	CRB	189.1	-0.9		
CAD	1.2698	+0.1			SGD	1.349	+0.2	DAX	13,059	+1.5	24.2	Wheat Chic.	436.5	-0.5		
NZD/AUD	0.9011	-0.4			IDR	13,527	+0.0	CAC 40	5,389	+0.4	19.0	Sugar	15.12	+0.9		
NZD/EUR	0.5777	-0.2			THB	32.61	-0.0	Nikkei	22,707	-0.5	24.3	Cotton	75.30	-0.2		
NZD/GBP	0.5087	-0.5			KRW	1,089	+0.2	Shanghai	3,310	-0.2	3.3	Coffee	128.4	-0.9		
NZD/JPY	77.19	-0.1			TWD	30.03	+0.1	ASX 200	5,986	-0.1	10.8	WM powder	2900.0	-0.5		
NZD/CAD	0.8691	-0.6			PHP	50.66	+0.8	NZX 50	8,185	-0.0	19.4	<b>Australian Futures</b>				
NZ TWI	72.43	-0.5										3 year bond	98.02	-0.05		
												10 year bond	97.43	-0.05		
Interest Rates					Benchmark 10 Yr Bonds			NZ Government Bonds			NZ Swap Yields					
	Rates				Swap Yields			Benchmark 10 Yr Bonds			NZ Government Bonds			NZ Swap Yields		
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day		Last		Last	Last		Last		
USD	1.25	1.49	2.00	2.40	USD	2.39	0.03	NZGB 3 04/15/20	1.92	0.02	1 year	1.99	0.00			
AUD	1.50	1.75	1.92	2.74	AUD	2.54	0.01	NZGB 6 05/15/21	2.06	0.03	2 year	2.15	0.01			
NZD	1.75	1.90	2.15	3.09	NZD	2.76	0.04	NZGB 5 1/2 04/15/23	2.34	0.03	5 year	2.59	0.02			
EUR	0.00	0.06	-0.19	0.81	GER	0.34	0.04	NZGB 2 3/4 04/15/25	2.62	0.04	7 year	2.84	0.02			
GBP	0.50	0.52	0.85	1.36	GBP	1.29	0.05	NZGB 4 1/2 04/15/27	2.76	0.04	10 year	3.09	0.01			
JPY	-0.05	-0.03	0.04	0.26	JPY	0.04	0.01	NZGB 3 1/2 04/14/33	3.12	0.04	15 year	3.34	0.02			
CAD	1.00	1.17	1.91	2.29	CAD	1.94	0.03	NZGB 2 3/4 04/15/37	3.35	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 06:49

Source: Bloomberg

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