

5 October 2017

Events Round-Up

- UK: Markit services PMI, Sep: 53.6 vs. 53.2 exp.
- EC: Retail sales (m/m%), Aug: -0.5 vs. 0.3 exp.
- US: ADP employment change ('000), Sep: 135 vs. 135 exp.
- US: ISM non-manf. Composite, Sep: 59.8 vs. 55.5 exp.

Good Morning

It has been yet another day of modest financial price movements, as traders keep their powder dry ahead of Friday's US employment report.

Another day, another record high for the S&P500. The index is on track to record its seventh consecutive daily increase and is up for 15 of the past 18 days. Most of those price increases have been fairly modest in the current low vol environment. Making money has never been so boring.

Equities remain well supported against a backdrop of stronger global economic data. Final PMI data in Europe were in line with the flash estimates, showing the euro-area economy travelling well. Earlier in the week the US ISM manufacturing index rose to a 13-year high. Overnight, the non-manufacturing version of the index was released, blasting through expectations and leaping to its highest level in 12-years. It looks like the impact of the hurricanes had some impact, but it also looks like the index reflected fundamental support for US growth as well.

The data only had a passing impact on the currency market, with trading flows reported to be light, ahead of Friday's US employment report. ADP private-sector employment was in line, with the below-trend 135k increase impacted by the hurricanes.

The NZD is pretty much at the same level as it was this time yesterday, around 0.7160. We saw broadly-based USD weakness during the local trading session as the market seemed to hook onto a report that Trump was close to making a final decision on the next Fed Chair. Trump's advisers were said to have given him a final list of people they're recommending as candidates and speculation is that it is largely a two-horse race between Warsh, seen as on the hawkish side, and current Fed Board Governor Powell, who is more aligned with Yellen. With Warsh having more critics, it seems that Powell

would be the easier choice to make, satisfying the desire to have someone like Yellen on the hawk-dove spectrum, but more willing to relax financial regulations. After reaching as high as 0.72 yesterday afternoon, those gains have been gradually whittled away.

The NZD is fairly flat on most of the currencies, compared to this time yesterday. The AUD has slightly outperformed, which sees NZD/AUD down slightly at 0.9120.

The EUR doesn't seem to have been impacted by Spanish politics over the past 24 hours. Catalan President Puigdemont is scheduled to make a televised address this morning and has said he expects to declare independence within days following Sunday's unofficial referendum. EUR is fairly flat around 1.1760 and NZD/EUR sits around 0.6090. German bonds have seen some European safe-haven flows as investors have bailed out of Spanish bonds. Germany's 10-year rate got down to 0.415%, before reversing course to 0.45%.

US 10-year Treasury yields fell a couple of ticks during the NZ trading session as speculation about the next Fed Chair overhung the market, and fell further as German yields slipped, but yields have since increased and have been supported by the stronger ISM non-manufacturing release. From a low of 2.30%, the 10-year rate now sits at 2.33%, up 1bp or so from the NZ close.

The NZ rates market remained quiet, with government rates barely moving, the 2-year swap rate unchanged at 2.21% and the 10-year swap rate down 2bps at 3.27%, a reflection of lower global rates. The day ahead looks pretty uneventful, with flows light and likely in a holding pattern until Friday night's US employment report.

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Coming Up

	Period	Cons.	Prev.	NZT	
US	Fed's Yellen - brief welcoming remarks at conference			08:15	
AU	Trade balance (\$m)	Aug	850	460	13:30
AU	Retail sales (m/m%)	Aug	0.3	0.0	13:30
US	Trade balance (\$b)	Aug	-42.7	-43.7	01:30

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	0.7162	+0.0	0.7155	0.7189	CHF	0.9753	+0.2	S&P 500	2,536	+0.1	17.9	Oil (Brent)	55.84	-0.3
AUD	0.7858	+0.3	0.7838	0.7872	SEK	8.095	-0.5	Dow	22,665	+0.1	24.7	Oil (WTI)	50.12	-0.6
EUR	1.1763	+0.2	1.1747	1.1788	NOK	7.950	-0.4	Nasdaq	6,522	-0.1	23.3	Gold	1273.7	+0.2
GBP	1.3254	+0.1	1.3244	1.3292	HKD	7.808	-0.0	Stoxx 50	3,595	-0.3	18.7	HRC steel	606.0	+1.8
JPY	112.76	-0.1	112.32	112.94	CNY	6.653	-0.1	FTSE	7,468	-0.0	5.6	CRB	181.5	+0.3
CAD	1.2486	-0.0			SGD	1.362	-0.0	DAX	12,971	+0.5	23.4	Wheat Chic.	462.3	-0.7
NZD/AUD	0.9114	-0.3			IDR	13,477	-0.5	CAC 40	5,363	+0.5	19.1	Sugar	14.25	+1.5
NZD/EUR	0.6089	-0.1			THB	33.36	+0.0	Nikkei	20,627	+0.1	22.6	Cotton	68.15	-0.1
NZD/GBP	0.5404	-0.1			KRW	1,142	-0.4	Shanghai	3,349	+0.3	11.5	Coffee	125.2	+0.0
NZD/JPY	80.76	-0.1			TWD	30.37	-0.2	ASX 200	5,652	-0.9	3.7	WM powder	3140.0	-0.6
NZD/CAD	0.8942	+0.0			PHP	51.01	-0.2	NZX 50	7,950	+0.2	9.3	Australian Futures		
NZ TWI	75.74	-0.1										3 year bond	97.84	0.02
												10 year bond	97.16	0.02
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			Last	
USD	1.25	1.34	1.75	2.29	USD	2.33	0.01	NZGB 3 04/15/20	2.08	-0.01	1 year	2.03	0.00	
AUD	1.50	1.70	2.02	2.97	AUD	2.81	-0.03	NZGB 6 05/15/21	2.24	-0.00	2 year	2.21	0.00	
NZD	1.75	1.94	2.21	3.27	NZD	2.98	-0.00	NZGB 5 1/2 04/15/23	2.54	0.00	5 year	2.75	-0.01	
EUR	0.00	0.06	-0.17	0.91	GER	0.45	-0.01	NZGB 2 3/4 04/15/25	2.82	-0.00	7 year	3.01	-0.01	
GBP	0.25	0.34	0.81	1.42	GBP	1.38	0.03	NZGB 4 1/2 04/15/27	2.98	-0.01	10 year	3.27	-0.02	
JPY	-0.04	-0.05	0.03	0.26	JPY	0.06	-0.02	NZGB 3 1/2 04/14/33	3.32	-0.00	15 year	3.51	-0.02	
CAD	1.00	1.17	1.89	2.39	CAD	2.13	0.01	NZGB 2 3/4 04/15/37	3.53	-0.01				

* 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 06:52

Source: Bloomberg

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