

5 September 2017

## Events Round-Up

UK: Markit construction PMI, Aug: 51.1 vs. 52.0 exp.

## Good Morning

With the US on holiday, trading activity has been quiet. With little economic data to trade on, the focus has been on North Korea's provocations, which have seen a modest shift into safe-haven assets.

Tensions between the US and North Korea have risen a notch, following the weekend reports of that dysfunctional country (North Korea) testing a nuclear hydrogen bomb and intelligence that suggests it may be preparing to launch an intercontinental ballistic missile. As well as looking for some UN-led tighter sanctions against North Korea, Trump has threatened to cut off trade with nations that trade with North Korea. Being North Korea's largest trading partner, China is not happy. It's all looking a bit messy.

Despite the increased provocations and threats of military action (which still seem a bit hollow given the devastating consequences for both North Korea and South Korea, in our view) market movements have been fairly modest. In the currency space, the Swiss franc and JPY have outperformed, rising by 0.6-0.7%. The Euro Stoxx 600 is down 0.5% and gold is up 0.7%. In the bond market, Germany and UK 10-year rates are down by 1bp or less while US 10-year Treasury futures showed an implied yield drop of 2½ bps. The seemingly endless threats of war are having less impact on markets as time goes on and many traders see any market reaction as temporary and an opportunity to trade the other side.

USD/JPY fell by 100pips on the NZ open to just over 109.20 but that proved to be the low for the day and it currently sits at 109.65. Near the start of trading, the NZD fell to 0.7140 and that proved to be the low as well. The overnight range has been tight, with the NZD sitting near the local close around 0.7170.

The AUD has underperformed, not surprising as with net speculative positioning at its longest level in over four years, the currency is priced for perfection (as the NZD was five weeks ago and that didn't end well). The AUD sits at 0.7945, down 0.4% for the day. This has seen NZD/AUD recover from its 16-month low, up to around 0.9020.

EUR is hovering around the 1.19 mark, up 0.3% for the day, with the market nervous to take the currency too much higher ahead of Thursday's ECB meeting. GBP is down 0.2% to 1.2930, with sentiment not helped by another soft data point, this time the Markit Construction PMI.

Local rates trading was quiet yesterday, with the pricing action being dominated by the North Korean risk-off move than the reaction to higher US yields in the Friday night session. The 2-year swap rate nudged down 1bp to 2.16% while the 10-year rate fell by 2bps to 3.10%. The 10-year government bond yield fell by 4bps to 2.83%, with the market seeing the new long bond syndication unlikely ahead of the general election later in the month.

The local trading session should be quiet today. After the close, the RBA is expected to leave the cash rate on hold again, but to recognise that the near term growth momentum of the economy continues to improve. Still, no policy bias is expected to be given, keeping the Bank firmly on hold for some time. Speaking at the RBA Board dinner tonight, Governor Lowe will get the opportunity to expand on the Bank's latest thinking on the local economy and outlook.

Tonight sees another GDT dairy auction, with pricing expected to be flat to up slightly. For the rest of the week we expect central banks to hog the spotlight. This begins with two dovish Fed speakers giving talks overnight, Brainard and Kashkari.

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## Coming Up

|    |   | Period | Cons. | Prev. | NZT   |
|----|---|--------|-------|-------|-------|
| NZ | Building work put in place (q/q%)                         | Q2     | 1.6   | -3.5  | 10:45 |
| AU | BoP current account balance (\$b)                         | Q2     | -7.5  | -3.1  | 13:30 |
| CH | Caixin PMI services                                       | Aug    |       | 51.5  | 13:45 |
| AU | RBA cash rate target (%)                                  | Sep    | 1.5   | 1.5   | 16:30 |
| UK | Markit services PMI                                       | Aug    | 53.5  | 53.8  | 20:30 |
| EC | Retail sales (m/m%)                                       | Jul    | -0.3  | 0.5   | 21:00 |
| EC | GDP (q/q% final estimate)                                 | Q2     | 0.6   | 0.6   | 21:00 |
| AU | RBA Governor Lowe's remarks at Board dinner               |        |       |       | 21:10 |
| NZ | GDT dairy auction avg. winning price                      |        |       |       |       |
| US | Fed's Brainard speaks on economic outlook and mon. policy |        |       |       | 00:00 |
| US | Fed's Kashkari holds townhall event in Minneapolis        |        |       |       | 05:10 |

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                             | 0.7170 | +0.2        | 0.7157 | 0.7183 | CHF                   | 0.9581   | -0.7          | S&P 500             | 2,477  | +0.2          | 13.6           | Oil (Brent)               | 52.34  | -0.8  |
| AUD                             | 0.7947 | -0.4        | 0.7943 | 0.7971 | SEK                   | 7.963    | -0.5          | Dow                 | 21,988 | +0.2          | 18.9           | Oil (WTI)                 | 47.37  | +0.2  |
| EUR                             | 1.1900 | +0.3        | 1.1881 | 1.1922 | NOK                   | 7.807    | +0.1          | Nasdaq              | 6,435  | +0.1          | 22.6           | Gold                      | 1335.6 | +0.7  |
| GBP                             | 1.2927 | -0.2        | 1.2913 | 1.2965 | HKD                   | 7.825    | +0.0          | Stoxx 50            | 3,430  | -0.4          | 11.4           | HRC steel                 | 638.0  | +0.6  |
| JPY                             | 109.66 | -0.5        | 109.39 | 109.81 | CNY                   | 6.531    | -0.4          | FTSE                | 7,411  | -0.4          | 7.5            | CRB                       | 180.9  | +0.0  |
| CAD                             | 1.2413 | +0.2        |        |        | SGD                   | 1.356    | -0.0          | DAX                 | 12,102 | -0.3          | 13.3           | Wheat Chic.               | 438.8  | +1.0  |
| NZD/AUD                         | 0.9022 | +0.5        |        |        | IDR                   | 13,339   | +0.2          | CAC 40              | 5,104  | +0.1          | 12.4           | Sugar                     | 13.75  | +0.0  |
| NZD/EUR                         | 0.6025 | -0.2        |        |        | THB                   | 33.16    | +0.0          | Nikkei              | 19,508 | -0.9          | 14.5           | Cotton                    | 72.55  | +0.0  |
| NZD/GBP                         | 0.5547 | +0.4        |        |        | KRW                   | 1,133    | +0.9          | Shanghai            | 3,380  | +0.4          | 10.0           | Coffee                    | 129.1  | +0.0  |
| NZD/JPY                         | 78.63  | -0.4        |        |        | TWD                   | 30.05    | -0.0          | ASX 200             | 5,702  | -0.4          | 5.0            | WM powder                 | 3255.0 | +0.0  |
| NZ TWI                          | 75.19  | +0.2        |        |        | PHP                   | 51.19    | +0.1          | NZX 50              | 7,808  | -0.2          | 4.2            | <b>Australian Futures</b> |        |       |
|                                 |        |             |        |        |                       |          |               |                     |        |               |                | 3 year bond               | 98.01  | -0.02 |
|                                 |        |             |        |        |                       |          |               |                     |        |               |                | 10 year bond              | 97.38  | 0.05  |
| 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   | 1.32        | 1.54   | 2.08   | USD                   | 2.17     | 0.00          | NZGB 3 04/15/20     | 1.99   | -0.02         | 1 year         | 2.02                      | -0.01  |       |
| AUD                             | 1.50   | 1.74        | 1.95   | 2.79   | AUD                   | 2.62     | -0.04         | NZGB 6 05/15/21     | 2.13   | -0.02         | 2 year         | 2.16                      | -0.01  |       |
| NZD                             | 1.75   | 1.96        | 2.16   | 3.10   | NZD                   | 2.83     | -0.04         | NZGB 5 1/2 04/15/23 | 2.42   | -0.04         | 5 year         | 2.61                      | -0.03  |       |
| EUR                             | 0.00   | 0.06        | -0.20  | 0.79   | GER                   | 0.37     | -0.01         | NZGB 2 3/4 04/15/25 | 2.67   | -0.04         | 7 year         | 2.85                      | -0.02  |       |
| GBP                             | 0.25   | 0.28        | 0.54   | 1.15   | GBP                   | 1.06     | 0.00          | NZGB 4 1/2 04/15/27 | 2.83   | -0.04         | 10 year        | 3.10                      | -0.02  |       |
| JPY                             | -0.06  | -0.03       | 0.01   | 0.20   | JPY                   | -0.01    | -0.01         | NZGB 3 1/2 04/14/33 | 3.21   | -0.04         | 15 year        | 3.36                      | -0.02  |       |
| CAD                             | 0.75   | 1.17        | 1.69   | 2.21   | CAD                   | 1.91     | 0.07          | NZGB 2 3/4 04/15/37 | 3.45   | -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 06:40

Source: Bloomberg

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