

6 December 2017



## Events Round-Up

NZ: Building work volume (q/q%), Q3: 2.7 vs. 2.0 exp.  
AU: Net exports (% of GDP), Q3: 0.0 vs. 0.3 exp.  
AU: Retail sales (m/m%), Oct: 0.5 vs. 0.3 exp.  
CH: Caixin PMI composite, Nov: 51.6 vs. 51.0 prev.  
CH: Caixin PMI services, Nov: 51.9 vs. 51.2 prev.  
AU: RBA cash rate target, Dec: 1.5 vs. 1.5 exp.  
UK: Markit services PMI, Nov: 53.8 vs. 55.0 exp.  
EC: Retail sales (m/m%), Oct: -1.1 vs. -0.7 exp.  
NZ: GDT dairy auction avg. price: +0.4%  
US: ISM non-manf. Composite, Nov: 57.4 vs. 59.0 exp.

## Good Morning

There's been plenty of economic newsflow to digest but not a lot of price action, with traders reporting subdued flows. The NZD is up on all the crosses for the day, despite slipping slightly overnight. US 10-year yields are down slightly.

The NZD rose 40pips after Acting Governor Spencer's speech early afternoon, where he delved into the topic of low inflation and its implications for monetary policy. The policy message was that the Bank had become more flexible in its inflation targeting approach, with Spencer commenting that "...in pursuing our long term price stability objective, relatively more weight is being attached to output, employment and financial stability." Buried in the speech we detected an asymmetric bent towards current policy. Spencer included a scenario which might lead to higher rates. For balance, a scenario that could lead to lower rates was also given, but the Bank would have to be careful "not to generate unwarranted instability in output, the exchange rate or indeed household debt". It revealed a slight hawkish bias, as implicit by the Bank's projected rate track at the last MPS.

The NZD met some resistance just over the 0.69 mark and has slipped in overnight trading to around 0.6875, still safely within the approximate 0.68-0.70 range the currency has traded in for the last six weeks. The GDT dairy auction was in line, showing a modest increase in pricing and breaking the run of four negative auctions. We're closely monitoring possible drought conditions developing in NZ, which could lead to higher pricing ahead, but at the expense of much weaker volumes.

Dairy production already seems to be restrained, as conditions are dry, and in some areas cows face heat-stress.

Higher than expected Australian retail sales gave the AUD a boost yesterday and the rally continued a little after the RBA's policy statement, although the message was little changed, as expected. The AUD found the air thin above 0.7650 and has since unwound nearly all of those gains to sit back around 0.76, not helped some weakness in metal prices, including a 4% fall in copper and gold prices down about 1%. NZD/AUD is up slightly to 0.9045.

The USD has made some ground against EUR, GBP and JPY, despite weaker than expected data, with the US trade balance widening to a 9-month high and the ISM non-manufacturing index slipping further than expected, albeit from a high level. EUR has trended lower since last night and sits this morning at 1.1810. NZD/EUR is up 0.7% for the day to 0.5820.

GBP has had another rollercoaster session, lurching down as low as 1.3370 before recovering to 1.3440. There have been a number of headlines on Brexit issues hitting the screens, with the Irish border issue the key focus at present. This saga has a few more days to run yet. NZD/GBP is up about 0.5% to 0.5120.

US 10-year Treasury yields are trading close to their low for the day at 2.3650%, down 2bps from the NZ close. Yield curve flattening remains relentless, as more conviction in Fed tightening ahead sees the 2-year rate up 2bps to 1.83%.

The higher bias to global rates during the local session drove higher rates across the NZ curve, with the 2-year swap rate up 2bps to 2.16% and the 10-year rate up 3bps to 3.13%. Spencer's speech had more impact on the NZD than the rates market, although the slightly more hawkish interpretation supported the upside pressure to rates already prevailing at the time.

In the day ahead, Australian GDP data are released, with base effects likely helping lift the annual increase to a solid 3.0%. The Bank of Canada isn't expected to hike rates, but a tightening bias should remain, with the market expecting the next hike around March next year. In the US, ADP employment figures will be released.

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Coming Up

		Period	Cons.	Prev.	NZT
AU	GDP (q/q%)	Q3	0.7	0.8	13:30
GE	Factory orders (m/m%)	Oct	-0.2	1	20:00
US	ADP employment chge ('000)	Nov	190	235	02:15
CA	Bank of Canada rate decision	Dec	1.0	1.0	04:00
NZ	QV house prices (y/y%)	Nov		3.9	05:00

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	0.6876	+0.2	0.6869	0.6908	CHF	0.9882	+0.3		S&P 500	2,642	+0.1	19.8		Oil (Brent)	63.09	+1.0
AUD	0.7601	+0.0	0.7601	0.7654	SEK	8.398	-0.3		Dow	24,255	-0.1	26.2		Oil (WTI)	57.87	+0.7
EUR	1.1809	-0.5	1.1807	1.1877	NOK	8.298	-0.4		Nasdaq	6,805	+0.4	28.2		Gold	1262.9	-0.9
GBP	1.3438	-0.3	1.3371	1.3476	HKD	7.815	-0.0		Stoxx 50	3,571	-0.2	17.0		HRC steel	629.0	+0.0
JPY	112.71	+0.3	112.41	112.87	CNY	6.619	-0.0		FTSE	7,328	-0.2	8.6		CRB	187.9	-0.4
CAD	1.2697	+0.2			SGD	1.348	+0.0		DAX	13,049	-0.1	22.1		Wheat Chic.	431.8	-0.7
NZD/AUD	0.9046	+0.2			IDR	13,519	-0.1		CAC 40	5,376	-0.5	17.5		Sugar	14.92	-1.0
NZD/EUR	0.5823	+0.7			THB	32.61	+0.0		Nikkei	22,622	-0.4	23.2		Cotton	75.42	+0.5
NZD/GBP	0.5117	+0.6			KRW	1,086	-0.3		Shanghai	3,304	-0.2	3.3		Coffee	127.7	-0.7
NZD/JPY	77.50	+0.5			TWD	30.01	-0.1		ASX 200	5,972	-0.2	10.0		WM powder	2895.0	-0.7
NZD/CAD	0.8730	+0.5			PHP	50.65	-0.0		NZX 50	8,176	-0.1	18.3		<b>Australian Futures</b>		
NZ TWI	72.77	+0.3												3 year bond	97.99	-0.05
														10 year bond	97.43	-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				
USD	1.25	1.51	2.00	2.38	USD	2.37	-0.01	NZGB 3 04/15/20	1.95	0.03	1 year	1.99	0.01
AUD	1.50	1.76	1.94	2.73	AUD	2.60	0.06	NZGB 6 05/15/21	2.09	0.03	2 year	2.16	0.02
NZD	1.75	1.90	2.16	3.13	NZD	2.80	0.04	NZGB 5 1/2 04/15/23	2.38	0.04	5 year	2.62	0.02
EUR	0.00	0.06	-0.19	0.79	GER	0.32	-0.02	NZGB 2 3/4 04/15/25	2.65	0.03	7 year	2.86	0.03
GBP	0.50	0.52	0.84	1.34	GBP	1.26	-0.03	NZGB 4 1/2 04/15/27	2.80	0.04	10 year	3.13	0.03
JPY	-0.05	-0.03	0.04	0.26	JPY	0.05	0.01	NZGB 3 1/2 04/14/33	3.16	0.03	15 year	3.37	0.03
CAD	1.00	1.17	1.90	2.27	CAD	1.91	-0.01	NZGB 2 3/4 04/15/37	3.38	0.03			

\* 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 06:57

Source: Bloomberg

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