

6 November 2017



## Events Round-Up

- AU: Retail sales (m/m%), Sep: 0.0 vs. 0.4 exp.
- AU: Retail sales ex inflation (q/q%), Q3: 0.1 vs. 0.0 exp.
- CH: Caixin PMI services, Oct: 51.2 vs. 50.6 prev.
- UK: Markit services PMI, Oct: 55.6 vs. 53.3 exp.
- US: Chge in nonfarm payrolls ('000), Oct: 261 vs. 313 exp.
- US: Unemployment rate (%), Oct: 4.1 vs. 4.2 exp.
- US: Average hrly earnings (m/m%), Oct: 0.0 vs. 0.2 exp.
- US: Average hrly earnings (y/y%), Oct: 2.4 vs. 2.7 exp.
- US: ISM non-manufacturing, Oct: 60.1 vs. 58.5 exp.

## Good Morning

A fairly dull end to the week for markets, with muted reaction to the US employment report, and the NZD mixed on the crosses.

The US employment report, the key focus for Friday's trading, came in mixed. Headline employment growth was soft, but upward revisions more than made up for that. The unemployment rate unexpectedly dipped to a 17-year low of 4.1%, but wage inflation came in much weaker than expected – so something there for everyone and the market decided that the distortion of the hurricanes meant that it was wise to not over-react to the report. The market remains convinced that the Fed will hike again in December, being over 90% priced. The immediate dip in the USD quickly faded, helped later by a stronger reading for the ISM non-manufacturing composite. The USD TWI index ended the day slightly higher.

The US 10-year rate spent the session in a 2.32-2.36% range and ended at 2.33%, down 1bp from the NZ close. There was further yield curve flattening as the 2-year rate held steady. The 2s10s Treasury spread closed at 72bps, the flattest since 2007, with the debate raging whether this is a sign of slower economic growth ahead or simply a reflection of the unusual low global rates backdrop that keeps demand for US long-dated Treasuries underpinned.

The NZD closed the day slightly weaker, near 0.6910, having twice met resistance around 0.6950. For the week overall, it was a better one for the NZD, being up against all the key majors we follow, although gains were fairly

modest overall. CFTC net speculative positioning data showed the first net short positions in the NZD since June. Speculative accounts have been active sellers of the NZD over the past few months and the short positioning suggests a reduced hurdle for the currency to recover further. The NZD still looks oversold to us on a short-term view.

NZD/AUD rose 0.7% for the day to 0.9030 as the AUD remained under pressure, a soft retail sales figure not helping this time. NZD/EUR rose by 0.4% to 0.5950, with EUR/USD testing the 1.16 support area. The NZD was slightly lower for the day against JPY and GBP, although not significantly so.

The NZ curve flattened on Friday, with the 2-year swap rate up 1bp to 2.16% and the 10-year rate down 2bps to 3.12%. The 10-year government rate fell even further, by 5bps to 2.84%, with lower Australian and US rates a driving factor.

The day ahead should be quiet. RBNZ inflation expectations data are released, but the Bank has recently down-weighted the importance of this series, so we'll be largely ignoring it as well. Focus turns to Thursday's MPS, a more important statement than usual in our view. It'll be hard for the Bank to ignore the number of indicators that point to rising inflationary pressure. The balance of risk is pointing to higher short-dated swap rates and NZD by the end of the week in the absence of any significant global forces.

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## Coming Up

	Period	Cons.	Prev.	NZT
NZ 2Yr Inflation Expectations	Q4		2.09	15:00
GE Factory orders (m/m%)	Sep	-1.1	3.6	20:00
US Fed's Dudley Speaks on Lessons from the Financial Crisis				06:10

Source: Bloomberg, BNZ

Foreign Exchange							Equities				Commodities**		
Indicative overnight ranges (*)				Other FX			Major Indices				Price		
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day		
NZD	0.6907	-0.1	0.6898	0.6951	CHF	1.0007	+0.1		S&P 500	2,588	+0.3	24.1	
AUD	0.7650	-0.8	0.7639	0.7694	SEK	8.434	+0.5		Dow	23,539	+0.1	31.6	
EUR	1.1608	-0.4	1.1600	1.1690	NOK	8.176	+0.5		Nasdaq	6,764	+0.7	34.0	
GBP	1.3077	+0.1	1.3040	1.3132	HKD	7.803	+0.0		Stoxx 50	3,690	+0.0	24.9	
JPY	114.07	-0.0	113.64	114.43	CNY	6.639	+0.4		FTSE	7,560	+0.1	13.0	
CAD	1.2764	-0.4			SGD	1.365	+0.4		DAX	13,479	+0.3	31.4	
NZD/AUD	0.9029	+0.7			IDR	13,498	-0.4		CAC 40	5,518	-0.1	26.1	
NZD/EUR	0.5950	+0.4			THB	33.18	+0.3		Nikkei	22,539	+0.5	31.5	
NZD/GBP	0.5282	-0.2			KRW	1,114	-0.0		Shanghai	3,372	-0.3	7.9	
NZD/JPY	78.79	-0.1			TWD	30.20	+0.0		ASX 200	5,960	+0.5	15.0	
NZD/CAD	0.8816	-0.4			PHP	51.18	-0.4		NZX 50	8,065	-0.2	20.2	
NZ TWI	73.59	+0.2											
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	Last	Last		
USD	1.25	1.39	1.82	2.31	USD	2.33	-0.01	NZGB 3 04/15/20	1.96	-0.02	1 year	2.02	0.00
AUD	1.50	1.70	1.87	2.77	AUD	2.57	-0.08	NZGB 6 05/15/21	2.09	-0.03	2 year	2.16	0.01
NZD	1.75	1.94	2.11	3.12	NZD	2.84	-0.05	NZGB 5 1/2 04/15/23	2.38	-0.04	5 year	2.61	-0.01
EUR	0.00	0.06	-0.20	0.84	GER	0.36	-0.01	NZGB 2 3/4 04/15/25	2.65	-0.04	7 year	2.86	-0.02
GBP	0.50	0.52	0.80	1.32	GBP	1.26	0.00	NZGB 4 1/2 04/15/27	2.84	-0.05	10 year	3.12	-0.02
JPY	-0.04	-0.05	0.03	0.25	JPY	0.06	0.00	NZGB 3 1/2 04/14/33	3.19	-0.06	15 year	3.37	-0.02
CAD	1.00	1.17	1.80	2.28	CAD	1.96	-0.00	NZGB 2 3/4 04/15/37	3.38	-0.06			

\* 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 21:50

Source: Bloomberg

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