

6 October 2017

Events Round-Up

AU: Trade balance (\$m), Aug: 989 vs. 850 exp.

AU: Retail sales (m/m%), Aug: -0.6 vs. 0.3 exp.

US: Trade balance (\$b), Aug: -42.4 vs. -42.7 exp.

Good Morning

After a pause over the past couple of days, the USD recovery has reignited, amidst a backdrop of fresh highs in the S&P500 and UST yields ticking higher.

The USD has made broadly based gains – almost by default – as some clouds overhang other currencies, including political risk for the EUR and GBP, and weak data for the AUD and CAD. The USD TWI-majors index is up 0.5%, extending its rally from the 8 September low to over 3% now.

The USD had some independent support from Fed speakers and that has helped extend the rally. The Fed's Williams (non-voter) is optimistic on inflation rising to 2% and is confident that "rates will need to rise to their new normal levels". Speaking to reporters after his speech he added that he doesn't need to see an actual move up in inflation to justify another rate increase. Harker (voter) said that he had "penciled in" a move in December and three hikes hike year, in line with the median FOMC member. On the datafront, improving global demand and a weaker dollar helped boost US exports, with the trade deficit narrowing to an 11-month low in August.

A political cloud overhangs GBP, after PM May's train-wreck of a closing address at the Conservative Party conference. Her job as leader hangs in the balance. The fractious government is doing no favours to the UK as it tries to negotiate a favourable Brexit deal. It adds to the economic uncertainty about the outlook. On cue, UK new car registrations slumped for the sixth consecutive month. A BoE tightening next November remains about a 75% chance according to market pricing. Rather than hiking to get away from an "emergency" level of policy rate, a rate hike might instead be required amidst a crisis of confidence in the UK and the GBP. GBP is down nearly 1% to 1.3125.

A political cloud also overhangs EUR as Catalonia leaders ponder where whether to declare independence from Spain. An earlier report suggested that some sort of brokered deal might be done between Catalan and Spain's leaders that avoids the economic calamity of some

illegally declared secession of the region. But as I write, Catalan separatists had reiterated their plan for a debate in Parliament on Monday, defying orders from Spain's government. EUR is down 0.5% to 1.17. The ECB's minutes of its last meeting didn't seem to impact the market. The minutes provided more colour around the prospects of its well-anticipated tapering of asset purchases for later this month, with "any reassessment of the monetary policy stance should proceed in a very gradual and cautious manner, while maintaining sufficient flexibility". And on the euro, as was suggested in Draghi's press conference, "there was wide agreement that the recent movements in the euro exchange rate represented a source of uncertainty, which required monitoring."

The AUD was hit yesterday after much weaker than expected retail sales data. Some hawks in the market have been anticipating the RBA to move to an official tightening bias, but data like this can only help delay that sort of move. The AUD's fall has been extended as the USD recovery gathers momentum, seeing AUD fall below the 0.78 mark.

There has been no specific NZ news to bother the market, and the fall in the NZD to below 0.7120 reflects the combination of USD strength and some spillover from a soft AUD. NZD/AUD is up slightly to 0.9130, after falling below the 0.91 mark yesterday. NZD/GBP is up slightly to 0.5420, while NZD/EUR is down slightly to 0.6080. JPY has been the only major to keep pace with the USD, which sees NZD/JPY down 0.7% to 80.3.

US 10-year Treasury yields were tightly bound around 2.32-2.33% until the Fed's Williams' speech notes hit the screen, taking yields up to 2.35%. We've seen previous resistance around this level over the past week, so it'll be interesting to see whether yields can push on higher. Tonight's US employment report will be closely watched, although the data will be contaminated with hurricane effects, which will push payrolls lower than otherwise and wages higher than otherwise. Of the Fed speakers tonight, Dudley's talk on monetary policy holds the most interest.

Yesterday, NZ rates were slightly lower across the curve, with the 2-year swap rate down 1bp to 2.20% and the 10-year rate down 3bps to 3.23%, helped by lower Australian rates after the weak retail sales report. Over the weekend, we'll see the final count from the election, which is expected to see National lose at least one seat and quite possibly two seats to the Labour-Greens side.

Political factors haven't rattled the rates market so far and we don't expect it to be a significant factor, relative to the more important global forces on the bond market.

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Coming Up

	Period	Cons.	Prev.	NZT
US Fed's George speaks at Workforce Conference				09:30
JN Labor cash earnings (y/y%)	Aug	0.5	-0.3	13:00
GE Factory orders (m/m%)	Aug	0.7	-0.7	19:00
US Change in nonfarm payrolls ('000)	Sep	80	156	01:30
US Unemployment rate (%)	Sep	4.4	4.4	01:30
US Average hourly earnings (m/m%)	Sep	0.3	0.1	01:30
US Average hourly earnings (y/y%)	Sep	2.5	2.5	01:30
US Fed's Bostic speaks at Workforce Conference				02:15
US Fed's Dudley to speak on monetary policy				05:15
US Fed's Kaplan speaks at Workforce Conference				05:45
US Fed's Bullard speaks on economy in St. Louis				06:00

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	0.7115	-0.7	0.7114	0.7166	CHF	0.9787	+0.3	S&P 500	2,551	+0.5	18.1	Oil (Brent)	56.87	+1.9
AUD	0.7796	-0.9	0.7795	0.7838	SEK	8.146	+0.6	Dow	22,763	+0.4	24.5	Oil (WTI)	50.72	+1.4
EUR	1.1704	-0.5	1.1700	1.1779	NOK	8.006	+0.6	Nasdaq	6,577	+0.7	23.7	Gold	1269.9	-0.3
GBP	1.3121	-1.0	1.3121	1.3250	HKD	7.809	+0.0	Stoxx 50	3,614	+0.5	19.4	HRC steel	606.0	+1.8
JPY	112.79	+0.0	112.41	112.84	CNY	6.653	-0.1	FTSE	7,508	+0.5	6.7	CRB	183.0	+0.9
CAD	1.2572	+0.8			SGD	1.364	+0.2	DAX	12,968	-0.0	22.5	Wheat Chic.	460.5	+0.0
NZD/AUD	0.9126	+0.1			IDR	13,464	-0.1	CAC 40	5,379	+0.1	19.8	Sugar	14.39	+1.0
NZD/EUR	0.6079	-0.3			THB	33.39	+0.2	Nikkei	20,629	+0.0	22.1	Cotton	69.43	+1.9
NZD/GBP	0.5423	+0.2			KRW	1,142	-0.0	Shanghai	3,349	+0.3	11.5	Coffee	127.2	+1.6
NZD/JPY	80.25	-0.7			TWD	30.35	-0.1	ASX 200	5,652	-0.0	3.1	WMI powder	3200.0	+1.3
NZD/CAD	0.8945	+0.0			PHP	50.99	-0.1	NZX 50	7,975	+0.3	10.8	Australian Futures		
NZ TWI	75.47	-0.4										3 year bond	97.87	0.03
												10 year bond	97.17	0.00

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	1.35	1.76	2.30	USD	2.34	0.02	NZGB 3 04/15/20	2.07	-0.01
AUD	1.50	1.71	2.00	2.97	AUD	2.78	-0.03	NZGB 6 05/15/21	2.23	-0.02
NZD	1.75	1.93	2.20	3.23	NZD	2.95	-0.03	NZGB 5 1/2 04/15/23	2.52	-0.02
EUR	0.00	0.06	-0.17	0.90	GER	0.46	0.00	NZGB 2 3/4 04/15/25	2.79	-0.02
GBP	0.25	0.34	0.80	1.42	GBP	1.39	0.01	NZGB 4 1/2 04/15/27	2.95	-0.02
JPY	-0.04	-0.05	0.03	0.26	JPY	0.05	-0.01	NZGB 3 1/2 04/14/33	3.29	-0.03
CAD	1.00	1.17	1.89	2.37	CAD	2.11	-0.01	NZGB 2 3/4 04/15/37	3.50	-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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