

6 September 2017

Events Round-Up

NZ: Building work put in place (q/q%), Q2: -0.5 vs. 1.6 exp.

AU: BoP current a/c balance (\$b), Q2: -9.6 vs. -7.5 exp.

AU: Net exports (contrib. to GDP), Q2: 0.3 vs. 0.0 exp.

CH: Caixin PMI services, Aug: 52.7 vs. 51.5 prev.

AU: RBA cash rate target (%), Sep: 1.5 vs. 1.5 exp.

UK: Markit services PMI, Aug: 53.2 vs. 53.5 exp.

EC: Retail sales (m/m%), Jul: -0.3 vs. -0.3 exp.

NZ: GDT dairy auction avg. winning price: +0.3%

Good Morning

For a change, the NZD is the top performer for the day, while the USD remains out of favour as US Treasury yields hit a fresh low for the year.

US-North Korea tensions continue to bubble away in the background. US equities have played catch-up after its Labour Day holiday, with the S&P500 down nearly 1% and the VIX index around 13, compared to Friday's close around 10.

Safe haven currencies like JPY were supported yesterday after the Asia Business Daily reported North Korea had started moving an inter-continental ballistic missile for a possible launch before the weekend. In other developments, Trump said on Twitter that he will allow Japan and South Korea to purchase more weapons from the US; Russia and China rejected calls for increased sanctions against North Korea pointing out how ineffective they have been in the past; while North Korea issued another diatribe highlighting the "reckless" Trump administration and hinting at an unspecified "counteroffensive."

Against that backdrop, another potentially catastrophic hurricane heads towards the US, this time headed for Florida. And the Fed's predictably dovish Brainard argued against further tightening, saying "My own view is that we should be cautious about tightening policy further until we are confident inflation is on track to achieve our target".

The combination of all these forces has seen a rush towards US Treasuries, with the 10-year rate down over 9bps from Friday's close to 2.07% (after touching a fresh low for the year of 2.065%) and about 5bps down from the NZ close yesterday. The 2-year rate is down 5bps to

1.29%, with the Fed Funds curve now showing only 6bps of hikes priced in for the rest of this year and not even a full hike (22bps) priced in through to the end of next year.

UK 10-year rates are back below 1.0%, down over 5bps for the day and Germany's 10 year rate is down 3bps to 0.33%, with investors' appetite to make potentially large negative real returns undiminished.

Narrower US-global rate spreads continue to put downward pressure on the USD, with the various indices we monitor down 0.4% for the day. JPY has been well supported given its safe-haven status (somewhat ironic given its proximity to North Korea and the hostile history between the two countries), which sees USD/JPY near key technical support around 108.70.

Despite lower risk appetite, the NZD is the top performer for the day, a positive sign for the recently flightless currency and supporting our view that some consolidation after a poor run has been due. It reached as high as 0.7263 early this morning and currently sits at 0.7245, up 1.2% for the day. The latest GDT dairy auction showed an average 0.3% gain in pricing, in line with our "flat to up slightly" expectation noted yesterday.

AUD broke through the 0.80 mark again but has since retreated a little. Stronger than expected net exports and government spending data resulted in an upgrade to Q2 GDP estimates (due today), now expected to come in at 0.9% q/q. The RBA's policy statement was in line, indicating a slightly better growth outlook but the policy bias remaining firmly neutral. Governor Lowe fleshed out the RBA's thinking in a speech last night indicating that "... it will be some time before we are at what could be considered full employment in Australia and before underlying inflation is at the mid-point of the medium-term target range. This means that stimulatory monetary policy continues to be appropriate". NZD/AUD is up to 0.9065, with some profit-taking in long AUD/NZD positions a likely explanation.

EUR has only made a modest gain to 1.1920 against the soft USD, with attention focused on Thursday's ECB meeting. NZD/EUR is up 1% to 0.6080. Despite another miss to the downside for a UK economic indicator, this time the services PMI, GBP has found some support and is up through 1.3040.

USD/CAD found some support at 1.2350 ahead of the BoC's rate decision tonight, with some doubt whether the

central bank will raise rates again tonight or wait until next month. Most believe that the BoC will defer until next month.

The local rates market remains quiet and at the whim of global forces. The overnight price action should see 5 and 10-year swap rates fall to fresh lows for the year from yesterday's closes of 2.62% and 3.12% respectively.

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Coming Up

	Period	Cons.	Prev.	NZT
US Fed's Kaplan speaks in Dallas				11:00
JN Labor cash earnings (y/y%)	Jul	0.5	-0.4	12:00
AU GDP (q/q%)	Q2	0.9	0.3	13:30
AU GDP (y/y%)	Q2	1.9	1.7	13:30
GE Factory orders (m/m%)	Jul	0.2	1.0	18:00
US Trade balance (\$b)	Jul	-44.6	-43.6	00:30
CA Bank of Canada policy rate (%)		0.75	0.75	02:00
US ISM non-manf. composite	Aug	55.5	53.9	02:00
US Fed beige book				06:00

Source: Bloomberg, BNZ

Foreign Exchange					Equities				Commodities**				
Indicative overnight ranges (*)					Major Indices				Price				
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day		
NZD	0.7249	+1.2	0.7163	0.7263	S&P 500	2,456	-0.8	12.7	Oil (Brent)	53.25	+1.8		
AUD	0.7996	+0.7	0.7955	0.8028	Dow	21,752	-1.1	17.6	Oil (WTI)	48.62	+2.9		
EUR	1.1919	+0.2	1.1868	1.1941	Nasdaq	6,367	-1.1	21.3	Gold	1344.1	+1.3		
GBP	1.3041	+0.9	1.2909	1.3042	Stoxx 50	3,421	-0.3	11.2	HRC steel	644.0	+0.9		
JPY	108.67	-1.0	108.65	109.55	FTSE	7,373	-0.5	7.2	CRB	182.3	+0.8		
CAD	1.2378	-0.3			DAX	12,124	+0.2	13.6	Wheat Chic.	443.0	+0.6		
NZD/AUD	0.9066	+0.6			CAC 40	5,087	+0.4	12.0	Sugar	14.03	+2.0		
NZD/EUR	0.6082	+1.0			Nikkei	19,386	-0.6	13.5	Cotton	75.26	+4.1		
NZD/GBP	0.5559	+0.4			Shanghai	3,384	+0.1	9.5	Coffee	127.9	-0.9		
NZD/JPY	78.77	+0.3			ASX 200	5,706	+0.1	5.4	WM powder	3260.0	+0.2		
NZ TWI	75.81	+0.9			NZX 50	7,777	-0.4	3.6	Australian Futures				
									3 year bond	98	0.02		
									10 year bond	97.38	0.01		
Interest Rates					NZ Government Bonds				NZ Swap Yields				
	Rates				Benchmark 10 Yr Bonds		Last			Last			
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day							
USD	1.25	1.32	1.51	2.02	USD	2.07	-0.09	NZGB 3 04/15/20	1.99	0.01	1 year	2.02	0.00
AUD	1.50	1.73	1.94	2.79	AUD	2.68	0.05	NZGB 6 05/15/21	2.14	0.01	2 year	2.16	0.00
NZD	1.75	1.96	2.16	3.12	NZD	2.85	0.02	NZGB 5 1/2 04/15/23	2.43	0.01	5 year	2.62	0.00
EUR	0.00	0.06	-0.21	0.75	GER	0.34	-0.03	NZGB 2 3/4 04/15/25	2.69	0.02	7 year	2.86	0.01
GBP	0.25	0.28	0.52	1.09	GBP	1.03	-0.03	NZGB 4 1/2 04/15/27	2.85	0.02	10 year	3.12	0.02
JPY	-0.06	-0.03	0.01	0.19	JPY	0.01	0.02	NZGB 3 1/2 04/14/33	3.22	0.02	15 year	3.38	0.02
CAD	0.75	1.17	1.70	2.16	CAD	1.87	-0.05	NZGB 2 3/4 04/15/37	3.46	0.02			

* 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 06:59

Source: Bloomberg

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