

7 December 2017



Events Round-Up

AU: GDP (q/q%), Q3: 0.6 vs. 0.7 exp.

GE: Factory orders (m/m%), Oct: 0.5 vs. -0.2 exp.

US: ADP employment chg ('000), Nov: 190 vs. 190 exp.

CA: Bank of Canada rate decision, Dec: 1.0 vs. 1.0 exp.

NZ: QV house prices (y/y%), Nov: 6.4 vs. 3.9 prev.

Good Morning

A modest risk-off feel has pervaded markets this week, with US markets down slightly after three down days in a row and much weaker Asia equity markets yesterday. This sees US 10-year yields continuing to drift lower. On the back of this mood, JPY is the top performer since yesterday morning, while the NZD is holding its ground, further signs that a decent support base has been found.

The biggest loser for the day has been a weaker CAD. The Bank of Canada left its policy rate unchanged, as expected, and while it maintained a tightening bias the Bank said that it "will continue to be cautious". After the much stronger employment report last week, the market was anticipating a more hawkish tone. The market slightly pushed out its expected timing of the next rate, with April now looking more likely than March. USD/CAD and NZD/CAD are up in the order of 0.8% to near-1.28 and near-0.88 respectively.

The AUD came under pressure yesterday after the small miss on GDP, but it was the composition that got the market's attention, with private consumption barely positive. The AUD fell 30pips to 0.7580 and has edged down further overnight, trading down 0.6% for the day to 0.7560. NZD/AUD regained the 0.91 handle, where it has met some resistance.

There have been more negative headlines on Brexit for GBP, with the coalition partner Democratic Unionist Party digging its toes in. It has a different idea on what the Irish border should look like after Brexit than what has been proposed so far. It's looking tougher to get some agreement this week, which might delay EU/UK talks, pushing out the next more important phase of negotiations around a trade deal into next year.

EUR's downtrend this month has continued, with positioning a more likely factor than fundamentals, EUR is trading at a 2-week low of 1.1790. NZD/EUR has met resistance around 0.5850 over that period, including

overnight and currently sits this morning at 0.5830.

The USD is higher against all the majors overnight, but has struggled to make up its losses against JPY during local trading hours. USD/JPY is down 0.3% for the day at 112.25. ADP employment data were in line. Friday night's employment report will be the next focus for the market, with a robust 195k increase in employment expected alongside a lift in average hourly earnings to 2.7% y/y (prev. 2.4%).

The NZD trades this morning at 0.6870, a similar level as at this time yesterday. It was well supported yesterday afternoon and met some resistance, again, last evening just over the 0.69 mark. Fonterra cut its milk payout from \$6.70 to \$6.40, a well-anticipated move. BNZ cut its projected payout to \$6.30 several weeks ago. While the NZD has slipped since that announcement last night, a stronger USD was in the driving seat. QV house price data released this morning showed the first increase in annual house price inflation since January, up to 6.4% y/y.

At the risk of sounding like a broken record, the US yield curve continues to flatten, with the 2-year rate down 1bp to 1.81% and the 10-year rate down 2.32%. The 51bps spread is the narrowest in 10-years. While some are worried that this is a leading indicator of weaker growth ahead, I'd be hesitant in jumping to that conclusion. The long end of the market continues to be distorted by bloated central bank balance sheets. It makes no sense to me why the ECB is still buying European bonds every week, adding to the distortion. Germany's 10-year rate slipped below 0.3% to its lowest level since June at a time when CPI inflation is running at 1.8%.

Local rates were lower yesterday, with lower Australian rates, following the soft GDP figures a key influence, alongside the drift down in US rates. Pricing for RBA rate hikes continues to be pushed out, with the first hike now not fully priced until well into 2019. Pricing for the first RBNZ hike remains February 2019. The 2-year swap rate fell by 1bp to 2.16% while the 10-year rate fell by 5bps to 3.08%, fully unwinding the upward move earlier this week. The recent move down swap rates provides another opportunity for corporates to pay fixed rates and lock in some hedging before the end of the year.

The economic calendar is light for the day ahead, and trading conditions are likely to remain subdued until the aforementioned US employment report.

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Coming Up

	Period	Cons.	Prev.	NZT
AU Trade balance (\$b)	Oct	1400	1745	13:30
NZ NZ plans to sell 100m 2040 I/L bonds				14:05
CH Foreign reserves (\$b)	Nov	3124	3109	
GE Industrial production (m/m%)	Oct	0.9	-1.6	20:00

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	0.6871	-0.1	0.6871	0.6917	CHF	0.9902	+0.3		S&P 500	2,629	-0.0	18.8	Oil (Brent)	61.55	-2.1
AUD	0.7561	-0.6	0.7559	0.7598	SEK	8.439	+0.9		Dow	24,173	-0.0	25.6	Oil (WTI)	56.25	-2.4
EUR	1.1793	-0.3	1.1781	1.1845	NOK	8.284	+0.3		Nasdaq	6,764	+0.0	26.8	Gold	1263.4	+0.1
GBP	1.3378	-0.5	1.3358	1.3436	HKD	7.812	-0.1		Stoxx 50	3,562	-0.3	14.9	HRC steel	629.0	+0.0
JPY	112.25	-0.3	111.99	112.38	CNY	6.615	-0.1		FTSE	7,348	+0.3	8.4	CRB	185.0	-1.3
CAD	1.2792	+0.8			SGD	1.349	+0.2		DAX	12,999	-0.4	20.6	Wheat Chic.	426.0	-1.5
NZD/AUD	0.9087	+0.5			IDR	13,546	+0.2		CAC 40	5,374	-0.4	16.0	Sugar	14.50	-2.7
NZD/EUR	0.5826	+0.2			THB	32.64	+0.1		Nikkei	22,177	-2.0	19.9	Cotton	74.96	-0.1
NZD/GBP	0.5136	+0.4			KRW	1,093	+0.7		Shanghai	3,294	-0.3	2.2	Coffee	126.1	-1.0
NZD/JPY	77.13	-0.4			TWD	30.02	+0.0		ASX 200	5,946	-0.4	8.5	WM powder	2930.0	+1.2
NZD/CAD	0.8789	+0.7			PHP	50.73	+0.2		NZX 50	8,131	-0.6	18.0	Australian Futures		
NZ TWI	72.88	+0.3											3 year bond	98.05	0.05
													10 year bond	97.48	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				
USD	1.25	1.52	1.98	2.34	USD	2.32	-0.03	NZGB 3 04/15/20	1.93	-0.02	1 year	1.99	-0.00		
AUD	1.50	1.76	1.89	2.68	AUD	2.51	-0.09	NZGB 6 05/15/21	2.06	-0.03	2 year	2.16	-0.01		
NZD	1.75	1.90	2.15	3.08	NZD	2.76	-0.04	NZGB 5 1/2 04/15/23	2.35	-0.03	5 year	2.60	-0.02		
EUR	0.00	0.06	-0.19	0.78	GER	0.30	-0.03	NZGB 2 3/4 04/15/25	2.62	-0.03	7 year	2.83	-0.03		
GBP	0.50	0.52	0.83	1.32	GBP	1.23	-0.03	NZGB 4 1/2 04/15/27	2.76	-0.04	10 year	3.08	-0.05		
JPY	-0.05	-0.01	0.04	0.26	JPY	0.06	0.01	NZGB 3 1/2 04/14/33	3.11	-0.05	15 year	3.32	-0.05		
CAD	1.00	1.17	1.84	2.22	CAD	1.85	-0.04	NZGB 2 3/4 04/15/37	3.33	-0.05					

* 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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