

7 November 2017



Events Round-Up

NZ: RBNZ 2yr inflation expect., Q4: 2.02 vs. 2.09 prev.

GE: Factory orders (m/m%), Sep: xx 1.0. -1.1 exp.

Good Morning

The new week has begun with a surge in oil prices, modest currency movements and a further nudge down in global rates.

Oil prices reached their highest levels in more than two years after the Saudi King's anti-corruption purge over the weekend saw various princes and government ministers arrested, raising the prospect of some political instability in the region. Oil supply conditions were already looking on the tight side, as evidenced by the rising trend in prices and fear about further supply cuts has only added to the upward pressure on pricing. Brent crude is up around 3% after hitting the USD64 mark this morning.

The reaction of currencies to the move in oil prices has been fairly restrained, with the CAD only about 0.2% stronger vs the USD. The AUD is up 0.3% to 0.7675, with added support from a near 6% surge in iron ore prices yesterday as steel prices gained.

EUR was under pressure against a backdrop of falling bond yields and tested support at 1.1580 before bouncing off that level and currently sits just over 1.16. German bunds were supported by a lack of supply and the ECB's front-loading of purchases ahead of the quiet December trading period. A bit of a short squeeze saw the 10-year rate fall 3bps to 0.34%.

The NZD is up 0.2% since last week's close to 0.6920. Some downward pressure yesterday afternoon coincided with the shock announcement from the Debt Management Office that the widely anticipated syndicated launch of a new 2029 bond has been deferred to the first half of next year. The NZD might have weakened on this as one source of demand for the NZD immediately evaporated and NZ government bond yields fell significantly.

In the rates market traders and investors were short NZ bonds to make way for the new issue and the short squeeze after the announcement saw the NZ 10-year rate fall by 9bps to 2.75%, taking the NZ-US 10-year rate down to 41bps, a 20-year low. The 2033 and 2037 bonds saw

their yield fall by an even greater 11bps. There was some mild spillover of this into the swap market, with the 10-year rate down 2bps to 3.10%.

After falling to as low as 0.6875 overnight, the NZD regained its poise. The stronger AUD sees NZD/AUD down a touch to 0.9020, after moving sub-0.90 yesterday afternoon.

In other news, NY Fed President Dudley announced that he will leave the Fed in mid-2018. He is widely seen to be on the dovish side of the ledger. The US 10-year rate is down slightly to 2.32%, but that is likely more a reflection of being dragged down by lower Germany rates.

The September-October sell-off in 10-year US Treasury yields now seems like a distant memory, with rates now well down from the 2.47% peak. Market conviction in the Fed hiking rates in December and through 2018 has increased as well as an improved prospect of some sort of tax reform package seeing the light of day. Despite all that, we've seen the US yield curve flattening, with the 2s10s spread narrowing to 71bps, the flattest since 2007, driven by lower 10-year rates. It is hard to see what the catalyst is over the near term to take the US 10-year rate beyond the 2.40% level. We probably need to see higher than expected inflation indicators, a complete turnaround from the trend over the past six months.

USD/JPY saw a sharp lift yesterday afternoon after the BOJ's Kuroda reiterated his commitment to expansionary monetary policy in order to achieve the bank's inflation goal. The currency pair rose to 114.73, its highest level since March as stops were triggered, before a sharp reversal now sees it down 0.2% for the session to 113.80. NZD/JPY is flat at 78.75 after reaching a high of 79.17 yesterday.

Of the majors, GBP is the top performer, rising 0.6% to 1.3150 but there has been no obvious news to trigger the outperformance.

The day ahead sees the RBA's policy announcement, which is expected to maintain a neutral policy stance. For tonight's GDT dairy auction, current indicators point to a clear price decline, led lower by skim-milk powder as concern around possible changes to the EU intervention scheme weighs. We also expect a pullback in fat prices from recent highs. Lower pricing would add to downward pressure on Fonterra's milk price forecast.

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Coming Up

		Period	Cons.	Prev.	NZT
JN	Labor cash earnings (y/y%)	Sep	0.5	0.9	13:00
AU	RBA cash rate target (%)	Nov	1.5	1.5	16:30
GE	Industrial production (m/m%)	Sep	-0.8	2.6	20:00
EC	Retail sales (m/m%)	Sep	0.6	-0.5	23:00
CH	Foreign reserves (\$bn)	Oct	3108	3109	
NZ	GDT dairy auction avg. winning price			3204	
US	Fed's Quarles Speaks at Clearing House Conference				06:35

Source: Bloomberg, BNZ

Foreign Exchange						Equities				Commodities**				
Indicative overnight ranges (*)					Other FX		Major Indices				Price			
	Last	% Day	Low	High		Last	% Day			Last	Net Day			
NZD	0.6921	+0.2	0.6875	0.6927	CHF	0.9984	-0.2	S&P 500	2,589	+0.1	24.2	Oil (Brent)	63.81	+2.7
AUD	0.7675	+0.3	0.7647	0.7679	SEK	8.405	-0.4	Dow	23,543	+0.1	31.6	Oil (WTI)	57.08	+2.4
EUR	1.1611	+0.0	1.1580	1.1617	NOK	8.140	-0.5	Nasdaq	6,777	+0.2	34.3	Gold	1281.8	+1.1
GBP	1.3155	+0.6	1.3068	1.3162	HKD	7.803	-0.0	Stoxx 50	3,682	-0.2	24.6	HRC steel	612.0	+0.0
JPY	113.81	-0.2	113.76	114.43	CNY	6.634	-0.1	FTSE	7,562	+0.0	13.0	CRB	192.2	+1.5
CAD	1.2732	-0.3			SGD	1.362	-0.2	DAX	13,469	-0.1	31.3	Wheat Chic.	447.0	+0.8
NZD/AUD	0.9018	-0.1			IDR	13,524	+0.2	CAC 40	5,507	+0.2	25.8	Sugar	14.50	+0.8
NZD/EUR	0.5961	+0.2			THB	33.11	-0.2	Nikkei	22,548	+0.0	31.6	Cotton	68.85	+0.5
NZD/GBP	0.5261	-0.4			KRW	1,115	+0.1	Shanghai	3,388	+0.5	8.4	Coffee	125.7	+1.3
NZD/JPY	78.77	-0.0			TWD	30.20	+0.0	ASX 200	5,954	-0.1	14.9	W/M powder	2920.0	-0.3
NZD/CAD	0.8812	-0.1			PHP	51.22	+0.1	NZX 50	8,054	-0.1	20.1	Australian Futures		
NZ TWI	73.63	+0.1										3 year bond	98.06	-0.02
												10 year bond	97.40	-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	1.39	1.82	2.30	USD	2.32	-0.01	NZGB 3 04/15/20	1.94	-0.02	1 year	2.02	0.00	
AUD	1.50	1.70	1.90	2.79	AUD	2.57	-0.00	NZGB 6 05/15/21	2.06	-0.03	2 year	2.17	0.01	
NZD	1.75	1.94	2.17	3.10	NZD	2.75	-0.09	NZGB 5 1/2 04/15/23	2.33	-0.04	5 year	2.60	-0.01	
EUR	0.00	0.06	-0.20	0.81	GER	0.34	-0.03	NZGB 2 3/4 04/15/25	2.59	-0.06	7 year	2.84	-0.01	
GBP	0.50	0.52	0.79	1.31	GBP	1.26	-0.01	NZGB 4 1/2 04/15/27	2.75	-0.09	10 year	3.10	-0.02	
JPY	-0.04	-0.05	0.03	0.23	JPY	0.02	-0.03	NZGB 3 1/2 04/14/33	3.08	-0.11	15 year	3.33	-0.04	
CAD	1.00	1.17	1.78	2.25	CAD	1.93	-0.03	NZGB 2 3/4 04/15/37	3.27	-0.11				

* 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 06:47

Source: Bloomberg

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