

7 September 2017

Events Round-Up

JN: Labor cash earnings (y/y%), Jul: -0.3 vs. 0.5 exp.
AU: GDP (q/q%), Q2: 0.8 vs. 0.9 exp.
AU: GDP (y/y%), Q2: 1.8 vs. 1.9 exp.
GE: Factory orders (m/m%), Jul: -0.7 vs. 0.2 exp.
US: Trade balance (\$b), Jul: -43.7 vs. -44.6 exp.
CA: Bank of Canada policy rate (%): 1.0 vs. 0.75 exp.
US: ISM non-manf. Composite, Aug: 55.3 vs. 55.5 exp.

Good Morning

Risk sentiment has improved with US equities modestly higher, the VIX index down to 11.5, global rates up a bit and a softer Yen. The NZD is weaker for no apparent reason, after its top-performing move in the previous session, while the CAD has surged ahead after a surprise rate hike.

In currency markets, the CAD leads the charge, with USD/CAD down 1.2% to just over the 1.22 mark and NZD/CAD down 1.8% to sub-0.88. The Bank of Canada raised its policy rate for a second time, taking it to 1.0%, which surprised the market with respect to timing. The Bank tried to hose down expectations of further tightening by citing risks including continued excess capacity, subdued wage and price pressures, geopolitics, the higher Canadian dollar and elevated household indebtedness, but this didn't prevent the CAD surging further ahead. The bank didn't repeat language from previous statements about the current degree of stimulus being "appropriate", which the market interpreted as signalling further tightening ahead. The OIS market gives an 85% chance of another hike before the end of the year.

In key economic news, the US non-manufacturing ISM rebounded, although was a touch weaker than market expectations, while German factory orders unexpectedly fell in July. Neither figures had much impact on the market. In other news, Fed Vice Chair Fischer resigned effective 13 October, ahead of his term expire of June 2018, citing personal reasons, which resulted in a slightly weaker USD. But this was reversed as President Trump and congressional leaders agreed to measures that will extend the debt limit until 15 December, another classic case of kicking the can down the road, only delaying the potential showdown.

The NZD has trended lower since lunchtime yesterday for

no obvious reason, other than unwinding the previous day's strength. It currently sits just under the 0.72 mark. NZ First's Winston Peters, potential coalition partner for the next NZ government, reiterated his party's policy of devaluing the NZD by 15-20%, something he'd expect Labour or National to adopt. We doubt the market took much notice of that as the policy makes no sense with a freely floating currency. Furthermore, NZ's TWI trades just below its 5-year average alongside near-record terms of trade so it's not obvious that the NZD is fundamentally over-valued. We certainly don't think it is.

The AUD fell slightly after Q2 GDP came in slightly weaker than expected but it trades flat for the day close to 0.80. The NZD's underperformance overnight has seen NZD/AUD fall by 50pips to return to just below the 0.90 mark.

EUR and GBP are flat against the USD at 1.1915 and 1.3040. Tonight's ECB meeting has been on the radar for some time and represents a key risk event for EUR, with market reaction unpredictable. The Governing Council will discuss options for exiting its QE programme, but there is doubt about how much information on this topic will be communicated at this meeting. The ECB will be trying to avoid a "taper-tantrum" and will be keen to hold back any further appreciation in the EUR for now.

JPY is on the soft side, given the move out of safe-haven assets. USD/JPY is up 0.5% to 109.30, reinforcing the view that the high 108s represents a key technical support level. NZD/JPY is flat at 78.6.

US 10-year Treasury rates were tightly range-bound until news emerged that the debt ceiling showdown had been pushed out by a few months. From the 2.06-2.07% mark, the 10-year rate shot up to 2.10%. The removal of near-term tail-risk from the debt ceiling issue might allow Treasury yields to trade more on fundamentals for the next month or two. Rates look a bit too low in the context of better US and global economic activity data over recent weeks.

Yesterday, NZ rates reached fresh lows for the year as they followed the previous US day's trading moves. The 2-year swap rate closed 3bps lower at 2.13% and the 10-year rate fell by 8bps to 3.04%. We should see some reversal of that move today. Global forces remain firmly in the box seat.

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Coming Up

	Period	Cons.	Prev.	NZT
AU Retail sales (m/m%)	Jul	0.2	0.3	13:30
AU Trade balance (\$m)	Jul	1000	856	13:30
GE Industrial production (m/m%)	Jul	0.5	-1.1	18:00
EC ECB main refinancing rate (%)	Sep	0	0	23:45
EC ECB deposit facility rate (%)	Sep	-0.4	-0.4	23:45
EC ECB asset purchase target (€b)	Sep	60	60	23:45
CH Foreign reserves (USDb)	Aug	3095	3081	
US Fed's Mester speaks on economic outlook and mon. policy				04:15

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	0.7193	-0.6	0.7191	0.7238	CHF	0.9572	+0.2	S&P 500	2,468	+0.4	12.9	Oil (Brent)	54.22	+1.6
AUD	0.7998	+0.0	0.7964	0.8016	SEK	7.976	+0.1	Dow	21,827	+0.3	17.7	Oil (WTI)	49.14	+1.0
EUR	1.1915	+0.0	1.1910	1.1950	NOK	7.799	+0.3	Nasdaq	6,394	+0.3	21.2	Gold	1334.5	-0.4
GBP	1.3042	+0.1	1.3019	1.3082	HKD	7.826	-0.0	Stoxx 50	3,434	+0.4	11.8	HRC steel	644.0	+0.9
JPY	109.29	+0.4	108.45	109.40	CNY	6.524	-0.2	FTSE	7,354	-0.3	7.7	CRB	183.0	+0.4
CAD	1.2224	-1.2			SGD	1.350	-0.2	DAX	12,215	+0.7	14.3	Wheat Chic.	445.8	+0.6
NZD/AUD	0.8993	-0.6			IDR	13,333	-0.0	CAC 40	5,101	+0.4	12.6	Sugar	14.29	+1.9
NZD/EUR	0.6037	-0.6			THB	33.14	-0.0	Nikkei	19,358	-0.1	13.8	Cotton	75.26	+0.4
NZD/GBP	0.5515	-0.6			KRW	1,136	+0.4	Shanghai	3,385	+0.0	9.5	Coffee	127.9	+0.0
NZD/JPY	78.61	-0.1			TWD	30.07	-0.0	ASX 200	5,690	-0.3	4.9	WM powder	3170.0	-2.8
NZ TWI	75.21	-0.6			PHP	51.07	-0.1	NZX 50	7,790	+0.2	2.9	Australian Futures		
												3 year bond	97.98	-0.05
												10 year bond	97.36	-0.03
Interest Rates							NZ Government Bonds				NZ Swap Yields			
Rates		Swap Yields			Benchmark 10 Yr Bonds		Last		Last		Last			
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day							
USD	1.25	1.32	1.53	2.06	USD	2.10	0.04	NZGB 3 04/15/20	1.95	-0.03	1 year	2.01	-0.01	
AUD	1.50	1.74	1.99	2.81	AUD	2.60	-0.08	NZGB 6 05/15/21	2.09	-0.04	2 year	2.13	-0.03	
NZD	1.75	1.96	2.13	3.04	NZD	2.77	-0.07	NZGB 5 1/2 04/15/23	2.37	-0.05	5 year	2.55	-0.06	
EUR	0.00	0.06	-0.19	0.79	GER	0.35	0.01	NZGB 2 3/4 04/15/25	2.63	-0.06	7 year	2.79	-0.07	
GBP	0.25	0.28	0.53	1.11	GBP	1.01	-0.02	NZGB 4 1/2 04/15/27	2.77	-0.06	10 year	3.04	-0.08	
JPY	-0.06	-0.03	0.01	0.20	JPY	0.01	0.01	NZGB 3 1/2 04/14/33	3.14	-0.07	15 year	3.30	-0.08	
CAD	1.00	1.17	1.80	2.24	CAD	1.95	0.09	NZGB 2 3/4 04/15/37	3.38	-0.08				

* 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 06:51

Source: Bloomberg

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