

8 December 2017



Events Round-Up

AU: Trade balance (\$b), Oct: 105 vs. 1400 exp.

CH: Foreign reserves (\$b), Nov: 3119 vs. 3124 exp.

GE: Industrial production (m/m%), Oct: -1.4 vs. 0.9 exp.

Good Morning

Trading conditions have been quiet, as they typically are, ahead of the US employment report, due tonight. Currency movements have been modest, with commodity currencies like the NZD underperforming a little. Bitcoin is higher (goes without saying). Global rates are down slightly.

Markets are in a wait-and-see mode – waiting to see the US employment report tonight, waiting to see some agreement on a US tax bill, and waiting to see if the US government will need to shut down.

Senate and House Republicans continue to negotiate a final tax bill, with talk of watering down some of the tax reforms, including reducing the corporate rate to only 22% compared to 20% to reduce the impact on the deficit. President Donald Trump was scheduled to meet with congressional leaders to discuss a spending bill to avoid a government shutdown at the end of the week. House Speaker Pelosi said Democrats won't vote for a stopgap spending bill during today's House vote. The market's expectation is still that by the end of the week a short-term stopgap measure that keeps the government open for another two weeks will pass.

That uncertainty, including possibly less of a positive impact from tax cuts hasn't affected US equities, with the S&P500 currently up 0.4% and breaking a 4-day losing streak. The VIX index is back down to around 10, after spiking as high as 14 earlier this month.

In the currency market it seems the only game in town is Bitcoin, which blasted up through \$16,000 after blasting up through \$10,000 barely more than a week ago. In terms of "real" currencies, commodity currencies are weaker as pressure on commodity prices continues. Bloomberg's commodity price index has fallen in 9 of the past 10 sessions. Gold prices have dropped to a 4-month low.

Since this time yesterday, the AUD is the worst performer, down 0.5% to 0.7525, not helped by a much lower-than-expected trade balance for October. The NZD has followed a similar path, reflecting the broader

commodities theme, but the 0.68-0.70 continues to hold nicely. The NZD found support around 0.6830 after a steady decline yesterday afternoon and evening and trades this morning just under the 0.6850 mark. NZD/AUD has range traded and remains fairly flat around 0.91.

GBP continues to remain the most volatile of the majors. No resolution to the Irish border stumbling block to progress Brexit talks has been made. GBP fell 100pips to as low as 1.3320 last night as The Sun reported a divided UK Cabinet, with Boris Johnson arguing that Britain must take back control, against PM May's softer stance towards Brexit. The EU said that a Sunday deadline to make progress had not changed. GBP weakness soon reversed, helped by news that the UK and EU had reached a deal on a future role for the European Court of Justice in British legal cases after Brexit. This leaves the Irish border issue the only outstanding matter now to proceed with trade talks. GBP has ended up the strongest currency for the day, up 0.4% since this time yesterday to 1.3430. NZD/GBP is trading back down to 0.51.

In the rates market, the US 10-year rate has traded in a 2.32-2.35% range with a slight bias to the downside since the NZ close. Wage data tonight are expected to show a 0.3 percentage point lift to the annual increase, taking it to 2.7%. With the key focus on inflation at present, the market is more likely to be sensitive to this figure than the employment and unemployment rate metrics.

The local rates market barely showed any movement yesterday, with the 2-year and 10-year swap rates closing unchanged at 2.16% and 3.08% respectively. The data calendar for the day looks full but most of it isn't expected to be market moving.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Mfg Activity Volume (q/q%)	Q3		1.0	10:45
JN	Labor cash earnings (y/y%)	Oct	0.8	0.9	13:00
AU	Home loans (m/m%)	Oct	-2.0	-2.3	13:30
UK	Industrial production (m/m%)	Oct	0.0	0.7	22:30
UK	Construction output (m/m%)	Oct	0.1	-1.6	22:30
CH	Exports (y/y%)	Nov	5.3	6.9	
CH	Imports (y/y%)	Nov	12.5	17.2	
US	Chg in nonfarm payrolls ('000)	Nov	195	261	02:30
US	Unemployment rate (%)	Nov	4.1	4.1	02:30
US	Average hrly earnings (m/m%)	Nov	0.3	0	02:30
US	Avg hourly earnings (y/y%)	Nov	2.7	2.4	02:30
US	U. of Mich. cons. sentiment	Dec P	99.0	98.5	04:00
CH	CPI (y/y%)	Nov	1.8	1.9	Sat
CH	PPI (y/y%)	Nov	5.9	6.9	Sat

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	0.6846	-0.5	0.6829	0.6860	CHF	0.9922	+0.2				Oil (Brent)	62.11	+1.4
AUD	0.7524	-0.5	0.7515	0.7551	SEK	8.469	+0.4				Oil (WTI)	56.64	+1.2
EUR	1.1792	-0.0	1.1776	1.1807	NOK	8.293	+0.2				Gold	1251.9	-0.9
GBP	1.3427	+0.3	1.3320	1.3433	HKD	7.810	-0.0				HRC steel	630.0	+0.2
JPY	112.69	+0.4	112.38	112.80	CNY	6.619	+0.1				CRB	184.2	-0.3
CAD	1.2820	+0.2			SGD	1.350	+0.0				Wheat Chic.	420.8	-1.0
NZD/AUD	0.9099	-0.0			IDR	13,554	+0.1				Sugar	14.21	-1.7
NZD/EUR	0.5806	-0.5			THB	32.61	-0.0				Cotton	73.00	+0.4
NZD/GBP	0.5099	-0.8			KRW	1,093	+0.0				Coffee	122.9	-2.5
NZD/JPY	77.15	-0.2			TWD	30.03	+0.0				WM powder	2935.0	+0.0
NZD/CAD	0.8777	-0.3			PHP	50.65	-0.2				Australian Futures		
NZ TWI	72.67	-0.4									3 year bond	98.06	0.02
											10 year bond	97.49	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	1.52	1.98	2.35	USD	2.33	-0.01	NZGB 3 04/15/20	1.93	0.01	1 year	1.99	-0.01
AUD	1.50	1.76	1.89	2.67	AUD	2.51	0.01	NZGB 6 05/15/21	2.07	0.00	2 year	2.16	0.00
NZD	1.75	1.90	2.16	3.08	NZD	2.77	0.02	NZGB 5 1/2 04/15/23	2.35	0.01	5 year	2.60	0.01
EUR	0.00	0.06	-0.19	0.79	GER	0.29	-0.00	NZGB 2 3/4 04/15/25	2.63	0.01	7 year	2.83	0.00
GBP	0.50	0.52	0.83	1.34	GBP	1.25	0.03	NZGB 4 1/2 04/15/27	2.77	0.02	10 year	3.08	0.00
JPY	-0.05	-0.02	0.04	0.25	JPY	0.06	0.00	NZGB 3 1/2 04/14/33	3.12	0.02	15 year	3.33	0.01
CAD	1.00	1.17	1.84	2.22	CAD	1.84	-0.01	NZGB 2 3/4 04/15/37	3.34	0.01			

* 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 06:41

Source: Bloomberg

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