

8 November 2017



Events Round-Up

JN: Labor cash earnings (y/y%), Sep: 0.9 vs. 0.5 exp.

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

GE: Industrial production (m/m%), Sep: -1.6 vs. -0.9 exp.

EC: Retail sales (m/m%), Sep: 0.7 vs. 0.6 exp.

CH: Foreign reserves (\$bn), Oct: 3109 vs. 3110 exp.

NZ: GDT dairy auction avg. winning price: -3.5%

Good Morning

Amidst a lack of news flow or top tier data and light trading conditions, the USD is showing broadly based gains, while commodity currencies have underperformed. US equities are down slightly off record highs, while US 10-year rates have traded in a 3bps range.

The latest GDT dairy auction showed average prices lower for the third consecutive auction, down by 3.5% and whole milk powder down by 5.5%, broadly in line with expectations. The soft result adds to the likelihood of Fonterra downgrading its milk price forecast for the current season from the \$6.75 mark. The NZX milk price future for 2018 last traded at \$6.45 and BNZ's forecast was downgraded to \$6.30 last month.

The NZD is trading around the 0.6900 level, about 20pips down from this time yesterday. We saw the NZD bid yesterday after RBNZ Governor Spencer and Finance Minister Robertson signed an unchanged Policy Targets Agreement and the Minister released the terms of reference for a review of the RBNZ Act. These were along the lines previously outlined, including the best way the Bank can give due consideration to maximising employment alongside the price stability framework and introducing a committee-based approach. The positive NZD reaction might have reflected a reduction in the "fear factor" with regards to any potential changes to the RBNZ Act, including no thought of adding any reference to the NZD into the target mix.

The NZD met some resistance just under 0.6960 yesterday and overnight the driving force has been a broadly based increase in the USD. The USD TWI majors index is up 0.3% as the market awaits fresh news on tax reform negotiations. The WSJ reports that disagreements over key pieces of the tax bill could force the Republicans to make changes and slow down plans to pass it by year's end. As Trump travels through Asia he appears to have

softened his stance towards North Korea, suggesting that the rogue state should negotiate a deal "that's good for the people of North Korea and the people of the world" – a stark contrast to his "fire and fury" comments made a few months ago.

It's another quiet day on the economic front over the next 24 hours, before the RBNZ's MPS at 9am tomorrow takes centre-stage. We think that the odds favour a positive NZD reaction, with the market seemingly short, the Bank expected to revise up its inflation forecasts and perhaps noting some upside risks to inflation that have emerged over recent months.

The RBA's policy update came and went with little market reaction. The Bank remains decidedly in neutral territory, reaffirming that current policy remains appropriate to get inflation back up to the mid-point of the target band. The AUD is down to 0.7640, and NZD/AUD has traded in a tight range since the local close yesterday around 0.9030.

EUR continues to test fresh lows since the ECB's dovish taper. It reached a fresh low of 1.1554 and is currently around 1.1585. With commodity currencies underperforming, NZD/EUR is down 0.4% for the day to 0.5955. Bloomberg reports some dissent across the ECB Governing Council. Weidmann, Villeroy and Coeure are said to have pushed to alter a commitment to keep buying bonds until inflation improves. They recommended tying the overall level of monetary stimulus – rather than just asset purchases – to the outlook for prices. Separately, Lautenschlaeger said that she opposed last month's decision not to set an end date for buying bonds. A divided Board will make for an interesting 2018 for the ECB.

JPY and GBP both trade within 0.1% of the last NY close, seeing NZD crosses lower, to 78.6 and 0.5245 respectively.

The US Treasuries curve continues to show a bias to flatten, with the 2-year rate unchanged at 1.62% and the 10-year rate down 1bp to 2.30%, taking the 2s10s spread down to 68bps, a level not seen since 2007.

In local trading we saw a snapback in yields after the short-squeeze in government bonds seen on Monday. NZ's 10-year rate rose by 6bps to 2.81%, recovering about two-thirds of Monday's fall after the DMO shocked the market with its deferral of a new syndicated bond issue. Some squaring up of received 2-year and 1y/1y swap positions ahead of tomorrow's RBNZ MPS was evident,

with the 2-year swap rate up 3bps to 2.20% – a sensible move in our view, given the higher local inflationary pressure developing. The 10-year swap rate rose by 4bps to 3.14%.

jason.k.wong@bnz.co.nz

Coming Up

	Period	Cons.	Prev.	NZT
CH Imports (y/y%)	Oct	17.0	18.7	
CH Exports (y/y%)	Oct	7.2	8.1	

Foreign Exchange						Equities				Commodities**				
Indicative overnight ranges (*)					Other FX		Major Indices				Price			
	Last	% Day	Low	High		Last	% Day		% Year		Last	Net Day		
NZD	0.6898	-0.7	0.6891	0.6942	CHF	0.9990	+0.2	S&P 500	2,585	-0.2	21.3	Oil (Brent)	63.77	-0.8
AUD	0.7639	-0.7	0.7627	0.7689	SEK	8.401	+0.0	Dow	23,499	-0.2	28.7	Oil (WTI)	57.17	-0.3
EUR	1.1584	-0.2	1.1554	1.1612	NOK	8.177	+0.5	Nasdaq	6,754	-0.4	30.7	Gold	1275.7	-0.5
GBP	1.3155	-0.1	1.3109	1.3178	HKD	7.804	+0.0	Stoxx 50	3,659	-0.6	21.6	HRC steel	611.0	-0.2
JPY	113.91	+0.2	113.83	114.34	CNY	6.641	+0.1	FTSE	7,513	-0.7	10.4	CRB	191.8	-0.4
CAD	1.2789	+0.7			SGD	1.365	+0.2	DAX	13,379	-0.7	27.9	Wheat Chic.	443.0	-1.2
NZD/AUD	0.9030	+0.0			IDR	13,515	-0.1	CAC 40	5,481	-0.4	22.9	Sugar	14.74	+1.2
NZD/EUR	0.5955	-0.5			THB	33.15	+0.1	Nikkei	22,938	+1.7	33.5	Cotton	68.21	-1.0
NZD/GBP	0.5244	-0.6			KRW	1,112	-0.3	Shanghai	3,414	+0.7	8.9	Coffee	124.9	-0.4
NZD/JPY	78.58	-0.5			TWD	30.17	-0.1	ASX 200	6,014	+1.0	14.5	W/M powder	2910.0	-0.3
NZD/CAD	0.8822	-0.0			PHP	51.42	+0.4	NZX 50	8,050	-0.0	17.1	Australian Futures		
NZ TWI	73.53	-0.4										3 year bond	98.04	-0.02
												10 year bond	97.41	0.00
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		Last		
USD	1.25	1.40	1.83	2.28	USD	2.30	-0.01	NZGB 3 04/15/20	1.98	0.04	1 year	2.05	0.02	
AUD	1.50	1.70	1.91	2.78	AUD	2.58	0.01	NZGB 6 05/15/21	2.11	0.05	2 year	2.20	0.03	
NZD	1.75	1.93	2.20	3.14	NZD	2.81	0.06	NZGB 5 1/2 04/15/23	2.39	0.05	5 year	2.64	0.04	
EUR	0.00	0.06	-0.21	0.81	GER	0.33	-0.01	NZGB 2 3/4 04/15/25	2.65	0.06	7 year	2.88	0.04	
GBP	0.50	0.53	0.79	1.29	GBP	1.23	-0.03	NZGB 4 1/2 04/15/27	2.81	0.06	10 year	3.14	0.04	
JPY	-0.05	-0.05	0.03	0.23	JPY	0.03	0.01	NZGB 3 1/2 04/14/33	3.15	0.06	15 year	3.38	0.04	
CAD	1.00	1.17	1.75	2.21	CAD	1.89	-0.04	NZGB 2 3/4 04/15/37	3.33	0.06				

* 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 06:43

Source: Bloomberg

Contact Details

Jason Wong

Senior Markets Strategist
+64 4 924 7652

National Australia Bank

Ray Attrill

Head of FX Strategy
+61 2 9237 1848

Rodrigo Catril

Currency Strategist
+61 2 9293 7109

Gavin Friend

Senior Markets Strategist
+44 20 7710 2155

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