

8 September 2017

Events Round-Up

AU: Retail sales (m/m%), Jul: 0.0 vs. 0.2 exp.

AU: Trade balance (\$m), Jul: 460 vs. 1000 exp.

CH: Foreign reserves (USD\$b), Aug: 3092 vs. 3095 exp.

GE: Industrial production (m/m%), Jul: 0.0 vs. 0.5 exp.

EC: ECB main refinancing rate (%), Sep: 0.0 vs. 0.0 exp.

EC: ECB deposit facility rate (%), Sep: -0.4 vs. -0.4 exp.

EC: ECB asset purchase target (€b), Sep: 60 vs. 60 exp.

US: Jobless claims ('000), wk to 2 Sep: 298 vs 245 exp.

Good Morning

The USD remains under pressure for various reasons, while the EUR has performed well despite the ECB's warnings. A lack of detail on ECB policy sees lower German yields, helping to drive down US Treasury rates to new lows.

The key focus overnight was the ECB's policy update. Policy settings were left unchanged, including the Bank's long-standing commitment to maintaining its asset purchase programme at €60bn per month until the program ends in December, "or beyond if necessary". But ECB President Draghi suggested that next month he might be ready to make an announcement on the next steps for the asset purchase programme. "Various scenarios" were discussed, with Draghi unwilling to give much away at this stage. On the strength of the euro, the press statement mentioned "the recent volatility in the exchange rate represents a source of uncertainty which requires monitoring" and Draghi was questioned repeatedly about the euro in the press conference. While he admitted that there was "broad" concern in the Governing Council over the euro, he said the currency merely warranted "monitoring", but he added that the GC would have to take into account the appreciation of the euro in its future policy decisions.

The lack of detail on any potential tapering of asset purchases and fears that EUR strength might extend the quantum of asset purchases saw German bunds well bid after the announcement and the 10-year rate fell 4bps to 0.30%. EUR spiked to a high of 1.2060 as Draghi spoke, seemingly ignoring his message about policy decisions being linked to the strong EUR. This may be linked to the ECB's more upbeat economic outlook and the fact that EUR-strength only had a small negative impact (0.1pp) on the Bank's inflation forecasts. EUR has since pulled back

to 1.20, still up 0.7% for the day, but broad USD weakness has been a significant factor as well.

Lower German rates dragged down the US 10-year rate to a fresh year-to-date low of 2.03%, and it is currently down 4bps for the day at 2.06%. Yesterday's resignation of Fed vice-chair Fischer and the pushing out of the debt ceiling showdown to mid-December are also on the minds of investors, as they are seen to reduce the chance of the Fed tightening late in the year. The Fed's Mester, a known hawk, is still of a mind to continue along the path of rate normalisation. She commented that the Fed can't afford to wait until its policy goals on unemployment and inflation are fully met before acting, noting that "further removal of accommodation via gradual increases in the fed funds rate will be needed and will help sustain the expansion".

Other factors are keeping bond yields suppressed. US-North Korea tensions remain. Four launchers for a US missile shield arrived at a military base in South Korea, as Seoul warned North Korea may launch a new missile as soon as this weekend. Meanwhile, Hurricane Irma threatens to bring catastrophic damage to Florida, following the devastating impact of Hurricane Harvey. This creates added economic uncertainty. US jobless claims surged ahead last week, the first data to show the impact of the hurricane season.

The USD is weaker across the board, with the upbeat ECB and yesterday's BoC rate hike sitting alongside other factors, such as the hurricanes and a lack of conviction on Fed tightening. The USD TWI majors index is down 0.6% for the day. USD/CAD is down 0.7% to a fresh 2-year low of 1.2140. USD/JPY is down 0.5% to 108.60, close to key technical support levels. With a weak USD, EUR/GBP is perhaps a better indication of the impact of the ECB announcement. EUR/GBP is up 0.4% for the day to 0.9175.

The NZD and AUD have been bystanders in all this, with both making modest gains against the soft USD. NZD trades this morning at 0.7215. There was a kneejerk 30pip fall to 0.7175 after the latest opinion poll showed a growing lead for Labour over National, but the fall wasn't sustained. We see kneejerk reactions like this as short-term trading opportunities because ultimately we don't see the election outcome having any material impact for the NZD. NZD/AUD is down slightly for the day at 0.8990.

NZ swap rates lifted from their year-to-date lows,

reflecting the upward pressure from the previous US trading session. The 2-year rate rose 2bps to 2.15% while the 10-year rate rose by 4bps to 3.08%. Expect a little downward pressure on today's open. The Fed's Dudley's speech at 11am is worth watching, being one of the key FOMC members alongside Fischer and Yellen.

jason.k.wong@bnz.co.nz

Coming Up

	Period	Cons.	Prev.	NZT
NZ Manufactur. activity volume (q/q%)	2Q		-0.3	10:45
US Fed's Dudley speaks on US economic outlook ,mon. policy				11:00
JN GDP (q/q%)	Q2 F	0.7	1.0	11:50
US Fed's George speaks on the economic outlook				12:15
AU Home loans (m/m%)	Jul	1.0	0.5	13:30
CH Imports (USD y/y%)	Aug	10.0	11.0	
CH Exports (USD y/y%)	Aug	6.0	7.2	
UK Industrial production (m/m%)	Jul	0.2	0.5	20:30
UK Construction output (m/m%)	Jul	-0.2	-0.1	20:30
AU RBA Governor Lowe gives speech in Sydney				20:30
US Fed's Harker Speaks on Consumer Finance in Philadelphia				00:45

Source: Bloomberg, BNZ

Foreign Exchange							Equities				Commodities**			
Indicative overnight ranges (*)					Other FX		Major Indices				Price			
	Last	% Day	Low	High	Last	% Day		Last	% Day	% Year		Last	Net Day	
NZD	0.7215	+0.2	0.7172	0.7242	CHF	0.9526	-0.4	S&P 500	2,464	-0.1	12.7	Oil (Brent)	54.44	+0.4
AUD	0.8029	+0.4	0.7975	0.8045	SEK	7.939	-0.5	Dow	21,761	-0.2	17.5	Oil (WTI)	49.06	-0.2
EUR	1.2000	+0.7	1.1914	1.2059	NOK	7.750	-0.7	Nasdaq	6,396	+0.0	21.1	Gold	1346.4	+0.8
GBP	1.3080	+0.3	1.3033	1.3116	HKD	7.813	-0.2	Stoxx 50	3,448	+0.4	11.5	HRC steel	640.0	+0.0
JPY	108.63	-0.5	108.05	109.11	CNY	6.487	-0.6	FTSE	7,397	+0.6	8.0	CRB	182.9	-0.1
CAD	1.2144	-0.7			SGD	1.341	-0.6	DAX	12,297	+0.7	14.4	Wheat Chic.	437.3	-1.9
NZD/AUD	0.8986	-0.2			IDR	13,307	-0.2	CAC 40	5,115	+0.5	12.2	Sugar	14.03	-1.8
NZD/EUR	0.6013	-0.5			THB	33.10	-0.2	Nikkei	19,397	+0.2	14.4	Cotton	75.03	-0.5
NZD/GBP	0.5516	-0.1			KRW	1,130	-0.5	Shanghai	3,365	-0.6	8.7	Coffee	129.2	+1.0
NZD/JPY	78.38	-0.3			TWD	30.00	-0.2	ASX 200	5,690	+0.0	5.6	WM powder	3140.0	-0.9
NZ TWI	75.11	-0.1			PHP	50.86	-0.4	NZX 50	7,804	+0.2	3.6	Australian Futures		
												3 year bond	98.01	0.02
												10 year bond	97.42	0.06
Interest Rates							NZ Government Bonds				NZ Swap Yields			
	Rates				Swap Yields		Benchmark 10 Yr Bonds		Last			Last		
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day	Last	Net Day		Last	Net Day		Last	Net Day
USD	1.25	1.32	1.51	2.02	USD	2.06	-0.05	NZGB 3 04/15/20	1.96	0.01	1 year	2.01	0.00	
AUD	1.50	1.74	1.96	2.77	AUD	2.64	0.04	NZGB 6 05/15/21	2.10	0.01	2 year	2.15	0.02	
NZD	1.75	1.95	2.15	3.08	NZD	2.80	0.03	NZGB 5 1/2 04/15/23	2.40	0.02	5 year	2.58	0.03	
EUR	0.00	0.06	-0.20	0.77	GER	0.31	-0.04	NZGB 2 3/4 04/15/25	2.65	0.02	7 year	2.82	0.03	
GBP	0.25	0.28	0.52	1.07	GBP	0.97	-0.03	NZGB 4 1/2 04/15/27	2.80	0.02	10 year	3.08	0.04	
JPY	-0.06	-0.03	0.01	0.19	JPY	0.01	-0.00	NZGB 3 1/2 04/14/33	3.16	0.03	15 year	3.33	0.04	
CAD	1.00	1.17	1.85	2.24	CAD	1.95	0.01	NZGB 2 3/4 04/15/37	3.40	0.02				

* 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 06:58

Source: Bloomberg

Contact Details

New Zealand	Jason Wong	Senior Markets Strategist	+ (64 4) 924 7652
Australia	Ray Attrill	Head of FX Strategy	+ (61 2) 9237 1848
	Rodrigo Catril	Currency Strategist	+ (61 2) 9237 7109
London	Gavin Friend	Senior Markets Strategist	+ (44 0) 20 7710 0898

ANALYST DISCLAIMER: The person or persons named as the author(s) of this report hereby certify that the views expressed in the research report accurately reflect their personal views about the subject securities and issuers and other subject matters discussed. No part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the research report. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Markets Division of National Australia Bank Limited, a member of the National Australia Bank Group ("NAB"). The views of the author(s) do not necessarily reflect the views of NAB and are subject to change without notice. NAB may receive fees for banking services provided to an issuer of securities mentioned in this report. NAB, its affiliates and their respective officers, and employees, including persons involved in the preparation or issuance of this report (subject to the policies of NAB), may also from time to time maintain a long or short position in, or purchase or sell a position in, hold or act as advisors, brokers or commercial bankers in relation to the securities (or related securities and financial instruments), of companies mentioned in this report. NAB or its affiliates may engage in these transactions in a manner that is inconsistent with or contrary to any recommendations made in this report.

NEW ZEALAND DISCLAIMER: This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

USA DISCLAIMER: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.

National Australia Bank Limited is not a registered bank in New Zealand.