

9 November 2017



Events Round-Up

CH: Imports (y/y%), Oct: 17.2 vs. 17.0 exp.

CH: Exports (y/y%), Oct: 6.9 vs. 7.2 exp.

Good Morning

A dearth of top-tier economic data and Trump acting statesman-like in his trip across Asia are making for a very dull week in markets. Currencies remain tightly range-bound, equity markets are flat and global rates have barely budged.

As Republicans debate their tax bill, the news arising from discussions doesn't look hopeful for an early resolution. Yesterday the Washington Post reported that Senate Republican leaders are considering a one-year delay in the implementation of a major corporate tax cut, saving \$100bn. Another report suggests that Senate Republicans are considering fully repealing individual federal tax deductions for state and local taxes – including property taxes – and preserving the estate tax. Meanwhile in two state Governor elections, the Democrats beat the Republicans, which is seen as a harbinger for mid-term elections next year, and adding to the likely caution we'll see from Republicans with regards to any major policy decisions.

Expectations of the tax reform bill being passed in its current form are so low, that bad news for a deal has barely stirred the market. The USD TWI majors index is down slightly, in the order of 0.1%, and has tracked sideways in a very tight range for more than a week now.

The NZD continues to hover in the low 0.69s, an area it has been stuck in for the past week. The RBNZ's MPS at 9am this morning could well stir the market. We see the prospect of higher inflation ahead, driven by the weaker NZD, higher oil prices, a tighter labour market and the new government's policies such as the projected steep increase in the minimum wage. It's hard to see the Bank disagreeing with a likely upward move in inflation unless it builds in a much weaker growth and housing market outlook. The Bank is unlikely to sway from its view that

policy can remain accommodative for a considerable period, but it might be willing to acknowledge that risks around the inflation dial have shifted towards the upside.

GBP is on the soft side, down 0.5% to the 1.31 mark as UK PM May looks set to lose a second member of her cabinet within a week. NZD/GBP climbed towards 0.53 before meeting some resistance. Amid light trading flows there is little to add on the other crosses, with only small movements.

There is even less to say about the bond market. US 10-year Treasuries have traded in a 2bps range and they currently sit at the top of that range, nudging up 1bp to 2.32%. Yesterday, the Fed's Harker suggested he'll likely support a December rate hike, but he added that "I don't see any signs that inflation is running out of control in any way". He explained that he wants to boost rates "for a variety of reasons – but most notably to give us the leg room, that is, having the Fed funds rate high enough so that if and when the next recession comes, we'll have some room to move."

In the NZ bond market, the price action seen after Monday's shock announcement from the DMO that it would defer the syndicated issue of a new bond until the first half of next year has now been fully reversed. The 10-year rate rose by 3bps to 2.85%. Yields across the swap curve were flat to down slightly, with the 2-year rate steady at 2.19% and the 10-year rate down 2bps to 3.13%. There has been some squaring up of received short-end swap positions ahead of today's RBNZ announcement.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ RBNZ official cash rate (%)	Nov	1.75	1.75	09:00
AU Home loans (m/m%)	Sep	2.0	1.0	13:30
CH CPI (y/y%)	Oct	1.8	1.6	14:30
CH PPI (y/y%)	Oct	6.6	6.9	14:30

Source: Bloomberg, BNZ

Foreign Exchange							Equities				Commodities**					
Indicative overnight ranges (*)				Other FX			Major Indices				Price					
	Last	% Day	Low	High		Last	% Day		% Year		Last	Net Day				
NZD	0.6918	+0.2	0.6898	0.6938	CHF	1.0003	+0.0			S&P 500	2,591	+0.0	21.1	Oil (Brent)	64.47	+1.2
AUD	0.7675	+0.4	0.7645	0.7685	SEK	8.386	-0.1			Dow	23,553	-0.0	28.5	Oil (WTI)	57.80	+1.0
EUR	1.1590	+0.0	1.1579	1.1611	NOK	8.165	-0.1			Nasdaq	6,775	+0.1	30.4	Gold	1286.3	+0.8
GBP	1.3104	-0.5	1.3087	1.3172	HKD	7.797	-0.1			Stoxx 50	3,655	-0.1	20.9	HRC steel	609.0	-0.3
JPY	113.73	-0.2	113.40	113.93	CNY	6.628	-0.2			FTSE	7,530	+0.2	10.0	CRB	192.6	+0.4
CAD	1.2722	-0.4			SGD	1.362	-0.2			DAX	13,382	+0.0	27.7	Wheat Chic.	440.8	-0.9
NZD/AUD	0.9014	-0.1			IDR	13,514	-0.0			CAC 40	5,471	-0.2	22.2	Sugar	14.80	+0.5
NZD/EUR	0.5969	+0.2			THB	33.11	-0.1			Nikkei	22,914	-0.1	41.0	Cotton	68.74	+1.0
NZD/GBP	0.5279	+0.7			KRW	1,115	+0.3			Shanghai	3,415	+0.1	9.2	Coffee	124.9	+0.2
NZD/JPY	78.68	+0.0			TWD	30.18	+0.0			ASX 200	6,016	+0.0	16.7	WMI powder	2840.0	-2.4
NZD/CAD	0.8801	-0.2			PHP	51.33	-0.2			NZX 50	8,040	-0.1	20.7	Australian Futures		
NZ TWI	73.61	+0.1												3 year bond	98.03	0.00
														10 year bond	97.39	-0.01

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	1.40	1.84	2.30	USD	2.32	0.01	NZGB 3 04/15/20	2.01	0.02	1 year	2.04	-0.01
AUD	1.50	1.70	1.92	2.78	AUD	2.57	-0.01	NZGB 6 05/15/21	2.14	0.03	2 year	2.19	-0.00
NZD	1.75	1.94	2.19	3.13	NZD	2.85	0.03	NZGB 5 1/2 04/15/23	2.42	0.04	5 year	2.64	-0.00
EUR	0.00	0.06	-0.20	0.81	GER	0.33	-0.00	NZGB 2 3/4 04/15/25	2.68	0.04	7 year	2.87	-0.01
GBP	0.50	0.52	0.80	1.30	GBP	1.23	-0.01	NZGB 4 1/2 04/15/27	2.85	0.03	10 year	3.13	-0.02
JPY	-0.05	-0.05	0.03	0.23	JPY	0.03	-0.01	NZGB 3 1/2 04/14/33	3.18	0.04	15 year	3.36	-0.02
CAD	1.00	1.17	1.76	2.23	CAD	1.90	0.01	NZGB 2 3/4 04/15/37	3.37	0.04			

* 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 06:39

Source: Bloomberg

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