

9 October 2017

Events Round-Up

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

GE: Factory orders (m/m%), Aug: 3.6 vs. 0.7 exp.

US: Change in nonfarm payrolls ('000), Sep: -33 vs. 80 exp.

US: Unemployment rate (%), Sep: 4.2 vs. 4.4 exp.

US: Average hourly earnings (m/m%), Sep: 0.5 vs. 0.3 exp.

US: Average hourly earnings (y/y%), Sep: 2.9 vs. 2.5 exp.

Good Morning

There was some messy trading action on Friday, but the net result was some fairly modest changes for currencies, bonds and equities. The NZD ended the week on a soft note, closing below 0.71.

Trading on Friday was typically quiet ahead of the US employment report. The report was distorted by Hurricanes Harvey and Irma, which saw employment unexpectedly fall and stronger than expected wages, as the lowly paid and casual staff dropped out of the monthly calculation. Markets seemed to put more weight on the fall in the unemployment rate to a 16-year low and the upward revisions to wage inflation, which saw the probability of the Fed hiking in December up towards the 80% mark and the initial reaction being a stronger USD and higher UST yields.

Soon after, a report filtered through of two Russian legislators returning from a visit to Pyongyang this week and commenting that North Korea is planning to test a missile capable of reaching the west coast of the US. Earlier in the day during a photo-shoot with US military leaders Trump said that this was the "calm before the storm" and then refused to answer questions about what that meant. So heading into the long weekend in the US, with the Monday being a public holiday, traders wound back risk, which saw the USD and UST yields fall back to pre-employment report levels. On Saturday, Trump continued to tease North Korea, tweeting that "only one thing will work" to rein in the country's nuclear ambitions. This threat of military action suggests lower risk appetite as the new week begins.

The US 10-year rate spiked up to 2.40% after the employment report where it met some stiff technical resistance and then fell quickly to around 2.36% after the North Korea missile report, where it closed, about 1bp higher relative to the NZ close.

There was plenty of Fed-speak in the mix but this was not market moving. Dudley stuck to the Fed's script and repeated his view that "...even though inflation is currently somewhat below our longer-run objective, I judge that it is still appropriate to continue to remove monetary policy accommodation gradually". Kaplan and Bostic both suggested they were open to raising rates in December, but were still undecided. Uber-dove Bullard said after the payrolls report that there was no reason to raise rates and "I'm getting more concerned that we might make a policy mistake."

The NZD slipped a little during local trading hours closing just under the 0.71 mark and after the US employment report found itself down at 0.7059, its lowest level since the start of June, before closing the week around 0.7090. The week wasn't a great one for the NZD, which was inexplicably 1-1½% lower on all crosses bar GBP for the week overall. We can't see how this was fundamentally driven, with our risk appetite index hovering around its high for the year. A surprisingly soft GDT dairy auction earlier in the week only partially explains the NZD weakness overall.

On Saturday, the special vote count from the general election, saw National give up two seats to Labour and the Greens, as widely anticipated. The bottom line is that NZ First still has to make up its mind about what sort of government to back (with specials making a decision to support a centre left government slightly easier) and coalition negotiations can step up, with a decision expected by Thursday..

NZD/AUD was fairly flat around 0.9125. It reached as high as 0.9165 Friday afternoon after the WSJ reported comments from RBA board member Harper, seeing the AUD fall to 0.7750. He suggested that the RBA will likely remain cautious for longer-than-expected, with the possibility of another rate cut not completely ruled out. However, weakness in the AUD wasn't sustained, and it closed the week around 0.7770.

GBP was the weakest of the majors, as a political cloud hangs over PM May, with calls for her resignation. Furthermore, the FT reports that Germany and France have dashed British hopes of fast-tracking talks on a two-year post-Brexit transition deal, insisting that the UK's EU divorce bill be resolved first. GBP was down 0.4% for the day and 2½% for the week at 1.3065. The underperforming NZD saw NZD/JPY and NZD/EUR close at multi-week lows of 79.9 and 0.6045.

As usual, there's not much to report about the local rates market. The WSJ report on Harper's comments didn't seem to impact the Australian rates market so NZ rates were more at the whim of US rate forces. This saw 1-2bps yields increases for the bond and swap curve.

A US holiday tonight should see quiet trading conditions as the week begins, although with a possible a shift towards safe-haven assets as US-North Korea tensions remain in the headlines.

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Coming Up

	Period	Cons.	Prev.	NZT
CH Caixin PMI services	Sep		52.7	14:45
GE Industrial production (m/m%)	Aug	0.9	0.0	19:00

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	0.7090	-0.3	0.7059	0.7110	CHF	0.9797	+0.1		S&P 500	2,549	-0.1	18.0	Oil (Brent)	55.51	-2.6	
AUD	0.7767	-0.4	0.7733	0.7780	SEK	8.119	-0.3		Dow	22,774	-0.0	24.7	Oil (WTI)	49.25	-3.0	
EUR	1.1730	+0.2	1.1670	1.1739	NOK	8.001	-0.1		Nasdaq	6,590	+0.1	24.2	Gold	1271.6	+0.1	
GBP	1.3066	-0.4	1.3027	1.3102	HKD	7.806	-0.0		Stoxx 50	3,603	-0.3	19.3	HRC steel	605.0	-0.2	
JPY	112.65	-0.2	112.64	113.44	CNY	6.653	-0.1		FTSE	7,523	+0.2	7.5	CRB	181.0	-1.1	
CAD	1.2529	-0.3			SGD	1.365	+0.0		DAX	12,956	-0.1	22.6	Wheat Chic.	462.8	+0.7	
NZD/AUD	0.9128	-0.1			IDR	13,519	+0.4		CAC 40	5,360	+0.0	19.6	Sugar	13.98	-2.8	
NZD/EUR	0.6044	-0.6			THB	33.44	+0.1		Nikkei	20,691	+0.3	22.7	Cotton	69.47	+0.8	
NZD/GBP	0.5426	-0.0			KRW	1,142	-0.0		Shanghai	3,349	+0.3	11.5	Coffee	130.0	+2.2	
NZD/JPY	79.87	-0.5			TWD	30.39	+0.1		ASX 200	5,711	+1.0	4.4	WM powder	3170.0	-0.9	
NZD/CAD	0.8883	-0.6			PHP	51.17	+0.4		NZX 50	7,977	+0.0	11.3	Australian Futures			
NZ TWI	75.28	-0.2											3 year bond	97.83	-0.02	
													10 year bond	97.14	-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		Last		
USD	1.25	1.35	1.77	2.31	USD	2.36	0.01	NZGB 3 04/15/20	2.07	0.00		1 year	2.03	0.02		
AUD	1.50	1.70	2.02	2.99	AUD	2.82	0.03	NZGB 6 05/15/21	2.24	0.00		2 year	2.21	0.02		
NZD	1.75	1.95	2.21	3.26	NZD	2.96	0.01	NZGB 5 1/2 04/15/23	2.54	0.01		5 year	2.74	0.02		
EUR	0.00	0.06	-0.17	0.91	GER	0.46	0.00	NZGB 2 3/4 04/15/25	2.81	0.02		7 year	3.00	0.02		
GBP	0.25	0.34	0.79	1.40	GBP	1.36	-0.02	NZGB 4 1/2 04/15/27	2.96	0.02		10 year	3.26	0.02		
JPY	-0.03	-0.05	0.03	0.27	JPY	0.06	0.01	NZGB 3 1/2 04/14/33	3.30	0.01		15 year	3.50	0.02		
CAD	1.00	1.17	1.91	2.40	CAD	2.13	0.03	NZGB 2 3/4 04/15/37	3.51	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: NY close Sat morning

Source: Bloomberg

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