

10 August 2017

Events Round-Up

AU: Westpac consumer confid, Aug: 95.5 vs. 96.6 prev.

CH: CPI (y/y%), Jul: 1.4 vs. 1.5 exp.

CH: PPI (y/y%), Jul: 5.5 vs. 5.6 exp.

AU: Home loans (m/m%), Jun: 0.5 vs. 1.5 exp.

US: Nonfarm productivity (ann%), Q2: 0.9 vs. 0.7 exp.

Good Morning

Today marks the 10-year anniversary of the beginning of the GFC, when BNP Paribas froze funds exposed to US sub-prime mortgages as they became impossible to value. Financial markets today couldn't be further from the GFC period, with most assets richly priced and incredibly low market volatility. Even the threat of a major military catastrophe on the Korean peninsula barely gets the market's attention these days.

With nothing much else going on – certainly no economic data worth noting – all the news was focused on Trump's escalated warning to North Korea of "...fire, fury and, frankly, power the likes of which this world has never seen before", late in the New York session yesterday. This was followed by North Korean threats of firing missiles over Guam. Trump has returned to Twitter, firing off a few more barbs, while his administration has tried to offer more soothing words.

A risk-off tone has pervaded markets, but moves haven't been particularly significant under the circumstances. The Swiss franc leads the charge, with USD/CHF down 1%, gold is up 1.4%, the VIX index is up 11% to 12, global bond yields are slightly lower and global equity markets are modestly weaker.

The NZD has traded in a tight 25 pip range and is flat at 0.7330, outperforming its commodity currency counterparts. This reflects selling earlier in the week ahead of this morning's Monetary Policy Statement, as lazy longs took profit ahead of the announcement. There was some reluctance to take the NZD down any further even with the US-North Korea sabre-rattling in the background. And with AUD/NZD stretching up to 1.08, that level was good enough for investors to take profit on that trade. In reverse terms, NZD/AUD is back up to 0.93 after stretching as low as 0.9255 yesterday.

Safe-haven flows saw a move into Yen. USD/JPY got down as low as 109.56 and currently trades down only

0.4% for the session around 109.85. However, yen outperformance sees NZD/JPY down to 80.5, some 4% below the 83.9 peak two weeks ago. EUR and GBP are flat for the day, as are NZD/EUR and NZD/GBP crosses.

In the bond market there has been slightly more reaction to European rates than US rates from the rising geopolitical tension. UK and Germany 10-year government rates were down by 5bps to 1.11% and 0.42% respectively. The US 10-year Treasury rate dipped to as low as 2.21%, slightly below the level prevailing before last Friday's strong non-farm payrolls report. Yields have since ticked higher to 2.24%, not helped by a soft bond tender, and are currently near the NZ close.

Lower global rates through the local session helped dragged down NZ rates, with the 2-year swap rate down 1bp to 2.16%, a fresh low for the year while the 5-year rate joined in that milestone, falling 2bps to 2.63%. Rates have already tracked lower – some 7bps for the 2-year rate over the past couple of weeks – in anticipation of a more dovish tone from the MPS today, leaving not much opportunity for further rate reductions even if those expectations are met.

We expect Governor Wheeler to play with a straight bat today in his final showing as Governor, running with a similar tone adopted all year. We expect little change to the key final paragraph in the press statement. "Monetary policy will remain accommodative for a considerable period. Numerous uncertainties remain and policy may need to adjust accordingly". The underlying message will be that the RBNZ is in no hurry to join some other major central banks in looking to remove policy accommodation.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ RBNZ OCR (%)	Aug	1.75	1.75	09:00
NZ RBNZ's Wheeler news conference post-MPS				10:00
NZ Card spending retail (m/m%)	Jul	0.3	0	10:45
UK Industrial production (m/m%)	Jun	0.1	-0.1	20:30
UK Construction output (m/m%)	Jun	1.4	-1.2	20:30
US PPI final demand (m/m%)	Jul	0.1	0.1	00:30
US PPI ex food and energy (m/m%)	Jul	0.2	0.1	00:30
US Fed's Dudley to hold press briefing				02:00

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	0.7332	+0.0	0.7311	0.7338	CHF	0.9634	-1.1			Oil (Brent)	52.66	+0.9	
AUD	0.7885	-0.4	0.7863	0.7901	SEK	8.178	+0.0			Oil (WTI)	49.52	+0.7	
EUR	1.1759	+0.1	1.1689	1.1762	NOK	7.947	-0.1			Gold	1274.4	+1.5	
GBP	1.3007	+0.1	1.2971	1.3028	HKD	7.817	-0.1			HRC steel	619.0	+0.0	
JPY	109.80	-0.5	109.56	110.17	CNY	6.674	-0.5			CRB	181.4	+0.2	
CAD	1.2698	+0.2			SGD	1.364	+0.0			Wheat Chic.	486.8	+0.6	
NZD/AUD	0.9299	+0.4			IDR	13,333	+0.1			Sugar	13.64	-1.0	
NZD/EUR	0.6235	-0.0			THB	33.24	-0.1			Cotton	71.82	+0.0	
NZD/GBP	0.5637	-0.1			KRW	1,135	+0.9			Coffee	142.7	-0.1	
NZD/JPY	80.51	-0.4			TWD	30.23	+0.2			WM powder	3300.0	+0.0	
NZ TWI	77.49	+0.0			PHP	50.65	+0.2			Australian Futures			
										3 year bond	98.05	0.01	
										10 year bond	97.37	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	1.31	1.59	2.20	USD	2.24	-0.02	NZGB 3 04/15/20	1.99	0.00	1 year	2.02	0.00
AUD	1.50	1.70	1.89	2.81	AUD	2.64	0.02	NZGB 6 05/15/21	2.12	-0.01	2 year	2.16	-0.01
NZD	1.75	1.96	2.16	3.15	NZD	2.80	-0.04	NZGB 5 1/2 04/15/23	2.42	-0.02	5 year	2.63	-0.02
EUR	0.00	0.06	-0.16	0.84	GER	0.43	-0.05	NZGB 2 3/4 04/15/25	2.65	-0.03	7 year	2.89	-0.02
GBP	0.25	0.28	0.56	1.18	GBP	1.11	-0.05	NZGB 4 1/2 04/15/27	2.80	-0.04	10 year	3.15	-0.01
JPY	-0.02	-0.02	0.04	0.25	JPY	0.06	-0.01	NZGB 3 1/2 04/14/33	3.18	-0.04	15 year	3.41	-0.01
CAD	0.75	1.17	1.59	2.21	CAD	1.91	-0.03	NZGB 2 3/4 04/15/37	3.42	-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 06:37

Source: Bloomberg

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