

10 November 2017



## Events Round-Up

NZ: RBNZ official cash rate (%), Nov: 1.75 vs. 1.75 exp.

AU: Home loans (m/m%), Sep: -2.3 vs. 2.0 exp.

CH: CPI (y/y%), Oct: 1.9 vs. 1.8 exp.

CH: PPI (y/y%), Oct: 6.9 vs. 6.6 exp.

## Good Morning

Risk appetite is lower as US tax bill negotiations continue and it's not looking great. That's had more impact on US equities than the modest changes seen in currency markets. The USD is slightly weaker while UST yields are slightly lower.

US equities are down 1% as I write, with uncertainty around tax reform overhanging the market. News came through that the Senate tax bill will delay the corporate rate cut to 20 percent until 2019. Meanwhile, the debt ceiling issue has come into focus again, with the current funding agreement expiring on 8 December, after being pushed out a few months ago. Extraordinary measures can be used to avoid a debt default through to the end of January, but again it's just a bad look and highlights the gridlock in Washington.

Adding to the risk-off mood, credit markets have been doing it tough recently, with the high yield (junk bond) market spitting the dummy this week, seeing rising spreads and some arguing that it might be the canary in the coalmine for a well-overdue correction in global equity markets. Spreads on US investment grade debt rose to a 1-month high, as the market is choked with supply, as deals are funded before tax laws potentially change. Japan's Nikkei fell by 0.2%, but intra-day there was a minus 3.5% fallout at one stage. The VIX index is up over 20% to 12. All in all, risk assets are underperforming and markets look more shakey than they have in a long time.

Against that backdrop the NZD has held up well, sustaining the modest rally we saw after the RBNZ MPS announcement. As expected, the RBNZ significantly revised upwards its CPI inflation track through to the end of next year, so inflation is now projected to reach and settle at the 2% mark some nine months earlier than previously projected, around mid-2018. The Bank maintained its view that "monetary policy will remain accommodative for a considerable period", but brought forward ever so slightly the possibility of the first rate hike

in the cycle to mid-2019.

The NZD lifted from its pre-MPS level of 0.6925 to 0.6970 during Acting Governor Spencer's press conference. He noted that the NZD was closer to a sustainable level, in the vicinity of fair value, and this was backed up by the Bank projecting a flat TWI at 73.5. It was a refreshingly honest assessment and something we agree with when seen in a medium-term context. That the NZD didn't rally hard after this comment suggested that traders weren't really in a mood to push the NZD a lot higher, perhaps a reflection of the global backdrop, with commodity currencies not well-liked at present. It suggests a hurdle for the NZD to push on up from here. The NZD touched a high of 0.6980 overnight and currently sits lower at 0.6960.

Relative to pre-MPS levels, the NZD is slightly higher against the AUD, CAD and GBP and flat against EUR and JPY. The Bank will be happy with the fairly muted currency reaction, considering its lifting of the inflation dial. The key theme for the majors is USD weakness as debate over the tax bill continues. There has been no top tier economic data. The European Commission forecast that the euro area economy will expand at the fastest pace in a decade this year and strong growth will be sustained through next year, while growth in the UK is headed for a prolonged slowdown. It's a theme that is well acknowledged.

In the rates market, European bonds sold-off as the post-ECB meeting move that took rates a lot lower was seen to be overdone. Germany's 10-year rate rose by 5bps to 0.37%. The sell-off saw the US 10-year rate climb to just over 2.34%, but since then the risk-off move has seen a retracement of yields back down to 2.32%.

The local rates market was active after the RBNZ MPS. There was more price action in the longer end than short end of the curve. The 2-year swap rate rose by 2bps to 2.21% as the Bank ever so slightly nudged forward the expected timing of the first rate hike. OIS pricing suggests that the first rate hike is now fully priced by November 2018 compared to February 2019 previously. The lifting of the inflation dial and slightly more hawkish tilt from the RBNZ got the attention of corporate payers looking further ahead. The 5 and 10-year swap rates rose by 7bps to 2.70% and 3.19% respectively. The NZ 10-year bond rate rose by 8bps to 2.93% taking the 3-day move to 18bps, after the liquidity hole seen after Monday's DMO announcement. It's fair to say that the next week will be a lot calmer in the local bond market.

The focus in the day ahead will be on the RBA's Statement on Monetary Policy where a few tweaks will be made to its economic forecasts, but shouldn't add much more value than that after Tuesday's on-hold policy decision. The US Veteran Day's holiday should make for a quiet end to the week.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Card spending retail (m/m%)	Oct	0.5	0.1	10:45
AU	RBA Statement on Mon. Policy	Nov			13:30
UK	Industrial production (m/m%)	Sep	0.3	0.2	22:30
US	U. of Mich. sentiment	Nov	100.9	100.7	04:00

Source: Bloomberg, BNZ

Foreign Exchange							Equities				Commodities**			
Indicative overnight ranges (*)					Other FX		Major Indices				Price			
	Last	% Day	Low	High		Last	% Day			Last	% Day	Net Day		
NZD	0.6961	-0.1	0.6933	0.6980	CHF	0.9931	-0.7	S&P 500	2,570	-1.0	18.8	Oil (Brent)	64.05	+0.9
AUD	0.7677	-0.0	0.7650	0.7694	SEK	8.370	-0.1	Dow	23,357	-0.9	25.6	Oil (WTI)	57.31	+0.9
EUR	1.1646	+0.4	1.1590	1.1655	NOK	8.139	-0.3	Nasdaq	6,704	-1.3	27.7	Gold	1288.1	+0.3
GBP	1.3139	+0.2	1.3085	1.3153	HKD	7.800	+0.0	Stoxx 50	3,613	-1.2	18.2	HRC steel	610.0	+0.2
JPY	113.19	-0.6	113.11	114.01	CNY	6.640	+0.2	FTSE	7,484	-0.6	8.3	CRB	191.9	+0.0
CAD	1.2681	-0.4			SGD	1.359	-0.2	DAX	13,183	-1.5	23.8	Wheat Chic.	443.8	+0.0
NZD/AUD	0.9067	-0.1			IDR	13,516	+0.0	CAC 40	5,408	-1.3	19.0	Sugar	14.83	-0.1
NZD/EUR	0.5977	-0.5			THB	33.10	-0.0	Nikkei	22,869	-0.2	31.9	Cotton	68.49	-0.2
NZD/GBP	0.5298	-0.2			KRW	1,116	+0.0	Shanghai	3,428	+0.4	8.1	Coffee	126.1	+0.4
NZD/JPY	78.79	-0.7			TWD	30.18	+0.0	ASX 200	6,049	+0.6	13.5	WM powder	2840.0	+0.0
NZD/CAD	0.8827	-0.4			PHP	51.27	-0.1	NZX 50	8,021	-0.2	19.1	<b>Australian Futures</b>		
NZ TWI	74.03	-0.1										3 year bond	98.02	0.00
												10 year bond	97.36	-0.03
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								
USD	1.25	1.41	1.83	2.31	USD	2.32	-0.01	NZGB 3 04/15/20	2.05	0.04	1 year	2.04	0.00	
AUD	1.50	1.71	1.91	2.81	AUD	2.60	0.02	NZGB 6 05/15/21	2.20	0.05	2 year	2.21	0.02	
NZD	1.75	1.94	2.21	3.19	NZD	2.93	0.08	NZGB 5 1/2 04/15/23	2.49	0.06	5 year	2.70	0.07	
EUR	0.00	0.06	-0.20	0.84	GER	0.38	0.05	NZGB 2 3/4 04/15/25	2.75	0.07	7 year	2.94	0.07	
GBP	0.50	0.53	0.81	1.32	GBP	1.27	0.04	NZGB 4 1/2 04/15/27	2.93	0.08	10 year	3.19	0.07	
JPY	-0.04	-0.05	0.03	0.23	JPY	0.03	0.00	NZGB 3 1/2 04/14/33	3.27	0.09	15 year	3.43	0.07	
CAD	1.00	1.17	1.78	2.25	CAD	1.93	0.01	NZGB 2 3/4 04/15/37	3.46	0.09				

\* 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 06:55

Source: Bloomberg

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