

10 October 2017

## Events Round-Up

CH: Caixin PMI services, Sep: 50.6 vs 52.7 prev.

GE: Industrial production (m/m%), Aug: 2.6 vs 0.9 exp.

## Good Morning

It was a very quiet session overnight, compounded by Columbus Day holiday in the US. European bond yields are a touch lower, while equity markets are generally little changed and currencies typically traded in tight ranges. The DXY US dollar index is marginally lower, down less than 0.2% on the day. USD/JPY is unchanged at 112.70.

The only big move of note in the past 24 hours has been in the Turkish lira. Told you it was a quiet day. The lira (TRY) dropped more than 6% against the US dollar at one point yesterday morning as tensions between the US and Turkey continue to rise. Latest developments see the US and Turkey suspending visa services for citizens looking to visit each other's country. TRY has since stabilised to now be only down around 3%. TRY's decline comes on top of some general downward pressure on emerging market currencies over recent weeks as prospects of further interest rate hikes from the Fed increase.

NZD was mildly sold on the open yesterday as a reaction to the weekend's final vote count that saw Labour and the Greens both pick up one more seat at the expense of National, despite this outcome being no surprise. NZD/USD dipped nearly 40pips, in illiquid conditions, to its lowest level since early June at just above 0.7050. Our usual missive for this election to fade any politically-motivated currency reaction proved fruitful again as the NZD quickly recovered and traded a tight circa 20 pip range overnight. We are no closer of knowing which way NZ First will lean. Our view continues to be to fade any knee-jerk currency reaction, whatever the final make-up of government. NZD/USD opens this morning around 0.7070, while NZD/AUD sits close to 0.9110. Today's electronic card transactions data is unlikely to ruffle markets.

For the major currencies overnight, GBP gained some support as UK politics found a pocket of relative calm with talk of a cabinet reshuffle strengthening Prime Minister May's position. This has stopped the rot for now in the GBP, as the fifth round of Brexit talks gets underway. Also, an upward revision to unit labour costs for the first half of 2017 supports thinking the BoE will hike rates this year. GBP/USD pushed just above 1.3180 at one point, before easing back. The pair opens this morning around

1.3150, still up 0.7% on the day. GBP strength drove NZD/GBP down 0.9% and back below 0.5400, opening around 0.5370 this morning.

German industrial production posted its strongest rise in six years, rising 2.6% in August much stronger than the 0.9% expected expansion. The lift is another sign of economic strength in core Europe adding some real weight to the positive vibes that has been prevalent across confidence surveys.

Oddly, EUR initially dipped on the news, reaching a low around 1.1720 last evening. Perhaps the perverse move was a nod to the winner of the 2017 Nobel Prize in Economics, Richard Thaler, for shedding light on how human weaknesses such as a lack of rationality and self-control can ultimately affect markets. In any case, the EUR recovered, and opens this morning up 0.2%, at close to 1.1750, with some support from Executive Board member Lautenschlaeger noting that the ECB should 'begin reducing our bond purchases next year'.

Oil prices have pushed marginally higher as OPEC Secretary-General said the oil market is re-balancing but may need further steps to sustain the recovery into 2018. This supports the growing consensus that production cuts that expire in March next year will be extended. Brent crude is up 0.5%, just shy of US\$56/bbl.

European 10-year government bond yields eased by around 1 to 3 bps, in risk appetite ebbed slightly following Trump's provocative comments at the end of last week and over the weekend regarding North Korea. The US market was shut.

The local rates market remains subdued. Movements yesterday were small, all within a basis point across the swap curve. NZ 2-year swap closed little changed yesterday around mid-range at 2.21%. NZ 5-year swap closed at 2.745%. NZ government bond yields did push 2 to 3.5 basis points higher across the curve yesterday, taking direction from the previous session offshore.

While the NZD has proven a little jumpy on NZ political headlines, the local rates market is taking a potential change in government in its stride. Indeed, NZ-Australia and NZ-US long term interest rate spreads have shown no sign of a political risk premium being built in. The NZ-AU 10-year government bond spread currently sits at a tight 15bps, while the NZ-US spread sits around 61bps.

Likewise, the NZ equity market is unfazed by domestic

politics with the NZX50 cruising passed the 8,000 level for the first time yesterday, finishing up 0.4% on the day and up more than 16% year-to-date. This is in keeping with the generally buoyant risk-on mood globally, but also reflects the current positive growth and low interest rate environment locally.

It looks like a relatively quiet day ahead, unless politics, somewhere, can provide some excitement, although as usual there will be interest in AU business confidence data during the local session.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Card Spending Retail MoM	Sep	0.7	-0.2	10:45
AU	NAB Business Conditions	Sep		15	13:30
UK	Industrial Production MoM	Aug	0.2	0.2	21:30
UK	Construction Output SA MoM	Aug	0	-0.9	21:30
US	NFIB Small Business Optimism	Sep	105	105.3	23:00
US	Fed's Kashkari Speaks at Regional Economic Conference				03:00

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	0.7069	-0.3	0.7064	0.7086	CHF	0.9801	+0.0	S&P 500	2,548	-0.1	18.3	Oil (Brent)	55.91	+0.5
AUD	0.7761	-0.1	0.7748	0.7770	SEK	8.111	-0.1	Dow	22,770	-0.0	24.8	Oil (WTI)	49.69	+0.8
EUR	1.1749	+0.2	1.1720	1.1756	NOK	7.974	-0.3	Nasdaq	6,588	-0.0	24.5	Gold	1281.8	+0.8
GBP	1.3153	+0.7	1.3094	1.3184	HKD	7.807	+0.0	Stoxx 50	3,611	+0.2	20.3	HRC steel	600.0	-0.7
JPY	112.68	+0.0	112.55	112.75	CNY	6.625	-0.4	FTSE	7,508	-0.2	6.6	CRB	181.1	+0.1
CAD	1.2539	+0.1			SGD	1.363	-0.1	DAX	12,976	+0.2	23.7	Wheat Chic.	456.3	-1.5
NZD/AUD	0.9108	-0.2			IDR	13,518	-0.0	CAC 40	5,366	+0.2	20.6	Sugar	14.00	+0.4
NZD/EUR	0.6017	-0.4			THB	33.38	-0.2	Nikkei	20,691	+0.3	22.7	Cotton	69.47	+0.8
NZD/GBP	0.5374	-0.9			KRW	1,142	+0.0	Shanghai	3,374	+0.8	10.7	Coffee	131.0	+0.7
NZD/JPY	79.65	-0.3			TWD	30.40	+0.0	ASX 200	5,739	+0.5	4.8	WM powder	3150.0	-0.6
NZD/CAD	0.8864	-0.2			PHP	51.26	+0.2	NZX 50	8,010	+0.4	12.6	<b>Australian Futures</b>		
NZ TWI	74.97	-0.4										3 year bond	97.84	0.01
												10 year bond	97.16	0.02
Interest Rates								NZ Government Bonds			NZ Swap Yields			
	Rates				Benchmark 10 Yr Bonds		Last			Last				
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day								
USD	1.25	1.35	1.78	2.32	USD	2.36	0.00	NZGB 3 04/15/20	2.10	0.02	1 year	2.02	-0.01	
AUD	1.50	1.70	2.00	2.98	AUD	2.82	0.01	NZGB 6 05/15/21	2.27	0.03	2 year	2.21	0.00	
NZD	1.75	1.93	2.21	3.26	NZD	2.99	0.04	NZGB 5 1/2 04/15/23	2.57	0.03	5 year	2.75	0.00	
EUR	0.00	0.06	-0.17	0.89	GER	0.44	-0.02	NZGB 2 3/4 04/15/25	2.84	0.03	7 year	3.01	0.00	
GBP	0.25	0.34	0.80	1.39	GBP	1.36	-0.01	NZGB 4 1/2 04/15/27	2.99	0.03	10 year	3.26	0.01	
JPY	-0.03	-0.05	0.03	0.27	JPY	0.06	0.00	NZGB 3 1/2 04/14/33	3.34	0.04	15 year	3.51	0.00	
CAD	1.00	1.17	1.91	2.40	CAD	2.13	0.03	NZGB 2 3/4 04/15/37	3.55	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 07:08

Source: Bloomberg

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