

11 December 2017



## Events Round-Up

- NZ: Manuf Activity Volume (q/q%), Q3: 0.3 vs. 1.0 prev.
- UK: Industrial production (m/m%), Oct: 0.0 vs. 0.0 exp.
- UK: Construction output (m/m%), Oct: -1.7 vs. 0.1 exp.
- CH: Exports (y/y%), Nov: 12.3 vs. 5.3 exp.
- CH: Imports (y/y%), Nov: 17.7 vs. 12.5 exp.
- US: Chg in nonfarm payrolls ('000), Nov: 228 vs. 195 exp.
- US: Unemployment rate (%), Nov: 4.1 vs. 4.1 exp.
- US: Average hrly earnings (m/m%), Nov: 0.2 vs. 0.3 exp.
- US: Avg hourly earnings (y/y%), Nov: 2.5 vs. 2.7 exp.
- US: U. of Mich. cons. sentiment, Dec: 96.8 vs. 99.0 exp.
- CH: CPI (y/y%), Nov: 1.7 vs. 1.8 exp.
- CH: PPI (y/y%), Nov: 5.8 vs. 5.9 exp.

## Good Morning

Currency movements were modest at the end of last week, with GBP the only notable mover Friday night despite signs that Brexit talks can move to the next phase. There was a slight steepening of the curve after the US employment report.

GBP was the key mover on Friday, moving higher in the morning NZ time as headlines hit the screen of some agreement likely being reached between the UK and EU, opening the way for negotiations to advance on a trade deal and a post-Brexit transitional period. After the official announcement was made Friday night NZ time it was all downhill from there for GBP, a classic case of buy the rumour sell the fact. The most contentious issue – how to avoid a hard border between EU member Ireland and Northern Ireland – was left largely unresolved. According an EU official, negotiations about the transition deal can start in January although trade talks won't start until February or March. The reality is that it has taken over 8 months to agree the easy bit – including the UK's divorce bill of around €45bn – and now the "real" negotiations can begin. GBP ended the week at 1.3385, well down from the intra-day peak of 1.3520, with NZD/GBP rising 0.7% from the NZ close to 0.5110.

The only other newsworthy event Friday was the US employment report, which showed stronger than

expected employment growth but wage inflation continued to underwhelm, with the annual increase coming in 0.2 percentage points lower than expected at 2.5%.

The combo of strong activity and weak inflation drove the S&P500 to a fresh high while the US yield curve showed a rare bias to steepen – although moves were modest, with the 2-year rate down 1bp and the 10-year up 1bp to 2.38%. The USD initially fell on the result but soon recovered and ended the day slightly higher on the various indices. It ended up being a good week for the USD overall, rising against all the majors, ahead of another Fed tightening next week, which is all but fully priced.

The NZD remained little changed from the NZ close at around 0.6840, capping off an uneventful week where the currency traded in a less-than 1-cent range, never trading outside 0.6820-0.6920. The AUD managed to stay above 0.75 all day, threatening to break lower a couple of times before finding support. It closed the week at 0.7510, with NZD/AUD slightly higher, ending the week just above the 0.91 mark.

The local rates market was dead on Friday, with no change to the swap curve.

The new week is likely to get off to a slow start with a light calendar today but there is plenty of event risk to consider later in the week beginning Wednesday night, NZ time. US CPI data precedes a likely Fed tightening, with new forecasts and dotplot (likely still signalling 3 more rate hikes next year). ECB and BoE meetings round out the week.

Locally, focus turns to the December fiscal update, with the new government's spending promises included in the official figures for the first time. Finance Minister Robertson's speech first thing this morning will provide some hints of what to expect when the books are opened on Thursday..

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## Coming Up

|    | Period                      | Cons. | Prev. | NZT   |
|----|-----------------------------|-------|-------|-------|
| NZ | NZ FinMin Roberston speaks  |       |       | 08:00 |
| NZ | Card spending retail (m/m%) | Nov   | 0.5   | 0.3   |

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                             | 0.6838 | +0.2  | 0.6832      | 0.6870   | CHF                   | 0.9927        | -0.2                |                     | S&P 500        | 2,652         | +0.6    | 17.3 | Oil (Brent)               | 63.40  | +1.9  |
| AUD                             | 0.7509 | -0.0  | 0.7504      | 0.7534   | SEK                   | 8.445         | -0.5                |                     | Dow            | 24,329        | +0.5    | 23.1 | Oil (WTI)                 | 57.36  | +1.2  |
| EUR                             | 1.1773 | +0.0  | 1.1730      | 1.1771   | NOK                   | 8.294         | -0.3                |                     | Nasdaq         | 6,840         | +0.4    | 25.6 | Gold                      | 1245.2 | -0.4  |
| GBP                             | 1.3390 | -0.6  | 1.3356      | 1.3520   | HKD                   | 7.806         | -0.0                |                     | Stoxx 50       | 3,591         | +0.5    | 12.3 | HRC steel                 | 635.0  | +0.8  |
| JPY                             | 113.48 | +0.3  | 113.13      | 113.59   | CNY                   | 6.621         | +0.0                |                     | FTSE           | 7,394         | +1.0    | 6.3  | CRB                       | 185.0  | +0.3  |
| CAD                             | 1.2848 | -0.0  |             |          | SGD                   | 1.353         | +0.1                |                     | DAX            | 13,154        | +0.8    | 17.4 | Wheat Chic.               | 419.0  | -0.6  |
| NZD/AUD                         | 0.9106 | +0.1  |             |          | IDR                   | 13,550        | -0.0                |                     | CAC 40         | 5,399         | +0.2    | 13.3 | Sugar                     | 14.05  | -1.8  |
| NZD/EUR                         | 0.5808 | +0.1  |             |          | THB                   | 32.62         | +0.0                |                     | Nikkei         | 22,811        | +1.4    | 20.1 | Cotton                    | 73.72  | -0.7  |
| NZD/GBP                         | 0.5107 | +0.7  |             |          | KRW                   | 1,093         | -0.1                |                     | Shanghai       | 3,290         | +0.5    | 1.8  | Coffee                    | 122.6  | -0.2  |
| NZD/JPY                         | 77.60  | +0.6  |             |          | TWD                   | 30.01         | -0.1                |                     | ASX 200        | 5,994         | +0.3    | 7.8  | WMI powder                | 2935.0 | +0.0  |
| NZD/CAD                         | 0.8785 | +0.2  |             |          | PHP                   | 50.56         | -0.2                |                     | NZX 50         | 8,235         | +0.8    | 19.5 | <b>Australian Futures</b> |        |       |
| NZ TWI                          | 72.79  | +0.3  |             |          |                       |               |                     |                     |                |               |         |      | 3 year bond               | 98.03  | -0.02 |
|                                 |        |       |             |          |                       |               |                     |                     |                |               |         |      | 10 year bond              | 97.45  | -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   | 1.54  | 2.00        | 2.39     | USD                   | 2.38          | 0.01                | NZGB 3 04/15/20     | 1.94           | 0.00          | 1 year  | 1.98 | -0.00                     |        |       |
| AUD                             | 1.50   | 1.76  | 1.90        | 2.70     | AUD                   | 2.53          | 0.02                | NZGB 6 05/15/21     | 2.08           | 0.01          | 2 year  | 2.15 | -0.00                     |        |       |
| NZD                             | 1.75   | 1.89  | 2.15        | 3.08     | NZD                   | 2.80          | 0.02                | NZGB 5 1/2 04/15/23 | 2.37           | 0.02          | 5 year  | 2.60 | 0.00                      |        |       |
| EUR                             | 0.00   | 0.06  | -0.18       | 0.81     | GER                   | 0.31          | 0.01                | NZGB 2 3/4 04/15/25 | 2.65           | 0.02          | 7 year  | 2.84 | 0.00                      |        |       |
| GBP                             | 0.50   | 0.52  | 0.83        | 1.35     | GBP                   | 1.28          | 0.03                | NZGB 4 1/2 04/15/27 | 2.80           | 0.02          | 10 year | 3.08 | 0.00                      |        |       |
| JPY                             | -0.04  | -0.02 | 0.04        | 0.25     | JPY                   | 0.05          | -0.00               | NZGB 3 1/2 04/14/33 | 3.15           | 0.02          | 15 year | 3.33 | 0.00                      |        |       |
| CAD                             | 1.00   | 1.17  | 1.85        | 2.24     | CAD                   | 1.86          | 0.01                | NZGB 2 3/4 04/15/37 | 3.36           | 0.02          |         |      |                           |        |       |

\* 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 morn.

Source: Bloomberg

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