

11 October 2017

## Events Round-Up

NZ: Card Spending Retail MoM, Sep: 0.1 vs 0.7 exp.

AU: NAB Business Conditions, Sep: 14 vs 15 prev.

UK: Industrial Production MoM, Aug: 0.2 vs 0.2 exp.

UK: Construction Output SA MoM, Aug: 0.6 vs 0.0 exp.

US: NFIB Small Business Optimism, Sep: 103 vs 105 exp.

US: Fed's Kashkari Speaks at Regional Econ. Conference

## Good Morning

A lower US dollar featured in overnight markets, as US yields dipped. Oil prices rose, while equities were mixed.

The IMF lifted its global growth forecasts overnight, in another sign that world economic growth has been performing better than expected through 2017. The Fund sees better prospects for all the world's advanced economies including US, Europe, China and Japan. The outlook for the UK and Spain were unchanged. Overall, global growth forecasts have been lifted to 3.6% for 2017 and 3.7% for 2018, both an increase on 0.1 percentage points from July's forecast. Positive for sure, but markets took their cues from elsewhere.

The US dollar leaked lower overnight, down moderately against all the major currencies. It is more confirmation that the recent US dollar rally has run out of steam for now, ahead of the Fed minutes tonight and the US CPI on Friday. The DXY US dollar index is 0.4% lower, down for the third consecutive day and back more than 1% from last Friday's highs.

A Politico report that cast doubt on whether Senator Paul will support Trump's tax proposals undermined US Treasury yields and the US dollar. Further US budget discomfort was expressed by IMF chief economist, Maurice Obstfeld, overnight who said 'whatever the tax reform plan looks like, it should not increase the deficit'. A weaker than expected US small business optimism didn't help. After leaving USD/JPY around 112.70 yesterday afternoon, the pair pushed lower overnight falling to around 112.00 at one point and opens around 112.30 this morning.

European currencies rose overnight, reflecting the softer US dollar. EUR/USD wriggled its way north through the night, defying near-term political risk surrounding Catalonia. The pair currently sits not far from its highs for the night at around 1.1810, up around 0.6% on the day.

GBP/USD also pushed higher, shrugging off a much larger than expected trade deficit but buoyed by stronger construction data offered support. GBP/USD is up 0.5% sitting just above 1.3200.

NZD has generally underperformed, being up just 0.1% against a weaker USD. NZD/USD tested below 0.7060 yesterday after weak electronic card transaction data and comments by leader of NZ First, Winston Peters, who said 'if you are an export dependent nation why would you go ahead with an inflation dollar', after more coalition talks. Coalition talks may be completed by Thursday, but the outcome is now not expected until sometime after that. So the uncertainty of government formation will hang over the NZD for a while yet. NZD/USD has traded a tight 30 pip range overnight, currently sitting around 0.7070. But the NZD is lower on the crosses. NZD/GBP is down 0.4%, at 0.5350 and NZD/JPY is down 0.3% at 79.4.

The NZ TWI has now fallen for seven consecutive days. At around 74.70, it is currently testing year-to-date lows and technical support. Importantly, the NZ TWI is more than 4% below the RBNZ's August MPS projections for Q4 (77.9). On its own, and if it stays here, a lower than anticipated TWI will lift the RBNZ's inflation forecasts that will have to be factored into upcoming policy considerations. This adds to some other signs that inflation is coming in higher than the RBNZ anticipated.

AUD has consolidated yesterday's gains following a firm NAB business survey. From 0.7750 early yesterday, the AUD/USD pushed up about 0.4% close to 0.7790, a level it has oscillated around through the night. This has seen NZD/AUD slip back around 0.4% to around 0.9080.

Oil prices have extended recent gains on possible Saudi export cuts and expectations more countries could join in OPEC/Russian production cuts. Brent crude is up 1.3% to around currently sit around US\$56.50/bbl. USD/CAD is down around 0.4% on the day, to around 1.2500.

US 10 year Treasury yields eased in the first session after Monday's US holiday. From Friday's close around 2.36%, 10-year yields fell as far as 2.32% on tax plan concerns before finding some support to currently sit around 2.34%. It is all within a range, ahead of the minutes from the September 20 meeting and no less than three Fed speakers in the next 24 hours.

The minutes may provide more context to the forecast adjustments made at that meeting including stronger economic growth, an unemployment rate pushing further

below what is considered normal, and a longer timeframe to achieve the Fed's inflation objective. The meeting also supported the idea of a December hike. The speakers will be able to give their timelier assessments, post-hurricanes and post-payrolls with a likely mix of views on offer. Market pricing currently suggests a near 80% chance of a hike by December. But Friday's US CPI might carry the most weight of all, with expectations that inflation will lift.

There was again very little movement in local interest rates, with swap rates pushing marginally higher across the curve with a mild steepening bias. It was a similar story for NZGB yields. But really, the local rates market looks like going nowhere ahead of the formation of the

next government. Next week's Q3 CPI data is also coming into view.

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Coming Up

	Period	Cons.	Prev.	NZT
AU Westpac Consumer Conf Index	Oct		97.9	12:30
US Fed's Kaplan Speaks at Stanford Institute				13:00
US Fed's Evans Speaks on Economy and Monetary Policy				00:15
US FOMC Meeting Minutes				07:00
US Fed's Williams Gives Community Leaders Speech				07:40

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	0.7068	+0.1	0.7057	0.7087	CHF	0.9752	-0.5	S&P 500	2,549	+0.2	17.8	Oil (Brent)	56.53	+1.3
AUD	0.7785	+0.4	0.7774	0.7797	SEK	8.076	-0.6	Dow	22,801	+0.2	24.4	Oil (WTI)	50.77	+2.4
EUR	1.1807	+0.6	1.1762	1.1825	NOK	7.947	-0.5	Nasdaq	6,572	-0.1	23.3	Gold	1290.6	+0.7
GBP	1.3208	+0.5	1.3155	1.3226	HKD	7.805	-0.0	Stoxx 50	3,599	-0.3	18.5	HRC steel	600.0	+0.0
JPY	112.31	-0.3	111.99	112.71	CNY	6.574	-0.8	FTSE	7,538	+0.4	6.2	CRB	183.0	+1.1
CAD	1.2505	-0.4			SGD	1.356	-0.5	DAX	12,949	-0.2	21.9	Wheat Chic.	456.0	+0.1
NZD/AUD	0.9079	-0.4			IDR	13,512	-0.0	CAC 40	5,364	-0.1	19.3	Sugar	14.17	+1.2
NZD/EUR	0.5986	-0.5			THB	33.24	-0.4	Nikkei	20,824	+0.6	22.3	Cotton	68.74	-0.3
NZD/GBP	0.5351	-0.4			KRW	1,136	-0.6	Shanghai	3,383	+0.3	10.4	Coffee	131.0	+0.0
NZD/JPY	79.38	-0.3			TWD	30.34	-0.2	ASX 200	5,738	-0.0	4.7	WM powder	3150.0	-0.6
NZD/CAD	0.8839	-0.3			PHP	51.47	+0.4	NZX 50	8,038	+0.3	12.8	<b>Australian Futures</b>		
NZ TWI	74.70	-0.3										3 year bond	97.85	0.00
												10 year bond	97.16	0.00

  

Interest Rates						NZ Government Bonds			NZ Swap Yields				
	Rates		Swap Yields		Benchmark 10 Yr Bonds		Last	Net Day	Last	Last	Last		
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day							
USD	1.25	1.36	1.77	2.30	USD	2.34	-0.02	NZGB 3 04/15/20	2.10	0.00	1 year	2.03	0.01
AUD	1.50	1.71	2.00	2.97	AUD	2.83	0.01	NZGB 6 05/15/21	2.27	0.00	2 year	2.22	0.00
NZD	1.75	1.93	2.22	3.28	NZD	3.02	0.02	NZGB 5 1/2 04/15/23	2.58	0.00	5 year	2.76	0.01
EUR	0.00	0.06	-0.17	0.89	GER	0.44	-0.00	NZGB 2 3/4 04/15/25	2.85	0.01	7 year	3.02	0.01
GBP	0.25	0.35	0.81	1.39	GBP	1.36	0.01	NZGB 4 1/2 04/15/27	3.02	0.02	10 year	3.28	0.01
JPY	-0.03	-0.05	0.03	0.26	JPY	0.06	-0.00	NZGB 3 1/2 04/14/33	3.36	0.02	15 year	3.52	0.02
CAD	1.00	1.17	1.91	2.39	CAD	2.12	-0.01	NZGB 2 3/4 04/15/37	3.57	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 NZT 07:21

Source: Bloomberg

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