

11 September 2017

Events Round-Up

NZ: Manufact. activity vol. (q/q%), 2Q: 1.0 vs. -0.3 prev.

JP: GDP (q/q%), Q2 F: 0.6 vs. 0.7 exp.

AU: Home loans (m/m%), Jul: 2.9 vs. 1.0 exp.

CH: Imports (USD y/y%), Aug: 13.3 vs. 10.0 exp.

CH: Exports (USD y/y%), Aug: 5.5 vs. 6.0 exp.

UK: Industrial production (m/m%), Jul: 0.2 vs. 0.2 exp.

UK: Construction output (m/m%), Jul: -0.9 vs. -0.2 exp.

CH: CPI (y/y%), Aug: 1.8 vs. 1.6 exp.

CH: PPI (y/y%), Aug: 6.3 vs. 5.7 exp.

Good Morning

During Friday's session, the USD reached its lowest level since the beginning of 2015, while US 10-year rates fell almost to the 2% mark, before closing slightly higher.

Familiar themes remained in the spotlight on Friday. US and North Korea tensions continued. Trump said it's not inevitable that the US will wind up in a war with North Korea, but military action remained an option. North Korea was angry with the US Ambassador to the United Nations, describing her comments as a "hysterical fit" and that the US would "pay dearly". Over the weekend, North Korea celebrated "Foundation Day" but the widely predicted testing of an ICBM did not occur.

Meanwhile, investors were concerned as Hurricane Irma approached Florida, with some estimates seeing it as the costliest storm on record. This added to the uncertainty about Fed policy going forward.

In a CNBC interview, Fed NY President Dudley said that back-to-back hurricanes in Q3 could temporarily influence the timing of the next interest-rate increase, although above-trend growth does warrant continued gradual rate hikes. This followed a speech earlier in the day where he remarked that he was surprised by the persistent inflation shortfall and argued for a shallow rate hike path. The Fed's George, a known hawk, argued that "it is time to continue to move that interest rate higher" and wasn't worried about low inflation.

The USD majors index fell for the seventh consecutive day, down 0.2% for the day and taking the cumulative fall for the week to 1.7%. Key technical levels were breached along the way, making the USD vulnerable to further downside pressure, although there was a recovery of

sorts as European trading got underway and it managed to recover 0.4% from its nadir.

The weak USD saw the NZD climb as high as 0.7338, a little after the NZ close and it was pretty much downhill from there, closing the week around the 0.7265 mark. The AUD followed a similar path, reaching a high of 0.8125 but closing around 0.8060. NZD/AUD ended the day 0.3% higher around 0.9020, with all of that gain occurring during NZ trading hours. Of note, breaking the recent strong run, industrial metals plunged, with nickel down 5½% and copper down over 3%. The significant outperformance of hard commodities compared to soft commodities has been instrumental in driving NZD/AUD down from 0.95 to 0.90 over recent months and we'd expect some reversal if those metal prices unwind to any significant degree.

The weak USD saw USD/JPY break down through key support levels before settling down 0.6% for the day at 107.85. Of the majors GBP was the strongest performer, up 0.8% to 1.32 despite some mixed data on industrial production and construction. EUR ended the day only up slightly against the USD at 1.2040 after earlier peaking over 1.2090.

Reuters reported that at its recent meeting ECB policy-makers discussed four QE scenarios and agreed that the next step was to cut stimulus and this should be done with the broadest possible consensus. Options included buying €40bn or €20bn of assets per month (down from the current €60bn) and extension options included 6 or 9 months. This new detail put a little upward pressure on German bond yields and the 10-year year ended up 1bp to 0.31%.

That report on the ECB had some spillover effect onto US Treasuries. Just after the NZ close, the US 10-year rate slumped to a low of 2.015% before it reversed course, reaching as high as 2.07% and closing the week at 2.05%. Speculative traders might well be long US 10-year futures, expecting lower rates, but the analyst community thinks otherwise. A Bloomberg survey showed that out of 58 respondents, the median 10-year rate for the end of the year was projected to be 2.48% while the lowest forecast in the market was 2.05%.

The local rates market showed a flattening bias, with the 2-year swap rate steady at 2.15% while the 10-year rate fell by 4bps to 3.04%, a fresh low for the year. We've seen some corporate paying interest in rates as they fall to fresh lows, but this has been overwhelmed by global

forces. We've on board with the Bloomberg consensus, which on fundamental grounds suggests that the bias for rates is skewed to the upside.

The lack of the predicted missile test from North Korea might inject some positive sentiment into the market as the new week begins. It remains to be seen how devastating Hurricane Irma will prove to be but initial reports aren't great, with parts of Miami under water. On the economic front, the key release will be UK CPI data tonight ahead of the BoE meeting later in the week.

jason.k.wong@bnz.co.nz

Coming Up

| | | Period | Cons. | Prev. | NZT |
|----|------------------------------|--------|-------|-------|-------|
| NZ | Card Spending Retail MoM | Aug | 0.5 | -0.5 | 10:45 |
| AU | NAB Business Conditions | Aug | | 15 | 13:30 |
| UK | CPI MoM | Aug | 0.5 | -0.1 | 20:30 |
| UK | CPI Core YoY | Aug | 2.5 | 2.4 | 20:30 |
| US | NFIB Small Business Optimism | Aug | 104.9 | 105.2 | 22:00 |

Source: Bloomberg, BNZ

| Foreign Exchange | | | | | Equities | | | | Commodities** | | | | | | |
|---------------------------------|--------|-------|-------------|--------|----------------------------|---------|-------|---------------------|-----------------------|--------|---------|-------|---------------------------|---------|------|
| Indicative overnight ranges (*) | | | | | Other FX | | | | Major Indices | | | Price | | | |
| | Last | % Day | Low | High | | Last | % Day | | | Last | Net Day | | Last | Net Day | |
| NZD | 0.7265 | +0.4 | 0.7258 | 0.7338 | CHF | 0.9442 | -0.7 | | S&P 500 | 2,461 | -0.1 | 15.7 | Oil (Brent) | 53.78 | -1.3 |
| AUD | 0.8060 | +0.2 | 0.8060 | 0.8125 | SEK | 7.931 | +0.1 | | Dow | 21,798 | +0.1 | 20.5 | Oil (WTI) | 47.48 | -3.3 |
| EUR | 1.2036 | +0.1 | 1.2015 | 1.2092 | NOK | 7.740 | +0.1 | | Nasdaq | 6,360 | -0.6 | 24.1 | Gold | 1347.3 | +0.1 |
| GBP | 1.3200 | +0.8 | 1.3124 | 1.3224 | HKD | 7.813 | +0.0 | | Stoxx 50 | 3,448 | +0.0 | 12.9 | HRC steel | 638.0 | +0.0 |
| JPY | 107.84 | -0.6 | 107.32 | 108.07 | CNY | 6.494 | +0.1 | | FTSE | 7,378 | -0.3 | 8.9 | CRB | 181.2 | -0.9 |
| CAD | 1.2159 | +0.4 | | | SGD | 1.342 | +0.1 | | DAX | 12,304 | +0.1 | 16.4 | Wheat Chic. | 437.8 | +0.1 |
| NZD/AUD | 0.9014 | +0.3 | | | IDR | 13,185 | -0.9 | | CAC 40 | 5,113 | +0.4 | 13.9 | Sugar | 14.09 | +0.4 |
| NZD/EUR | 0.6036 | +0.3 | | | THB | 33.13 | +0.1 | | Nikkei | 19,275 | -0.6 | 13.6 | Cotton | 75.59 | +0.7 |
| NZD/GBP | 0.5504 | -0.3 | | | KRW | 1,127 | -0.2 | | Shanghai | 3,365 | -0.0 | 9.3 | Coffee | 130.7 | +1.2 |
| NZD/JPY | 78.35 | -0.2 | | | TWD | 30.00 | -0.0 | | ASX 200 | 5,673 | -0.3 | 6.2 | WM powder | 3110.0 | -1.0 |
| NZ TWI | 75.53 | +0.3 | | | PHP | 50.82 | -0.1 | | NZX 50 | 7,852 | +0.6 | 5.1 | Australian Futures | | |
| 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 | 1.32 | 1.50 | 2.01 | USD | 2.05 | 0.01 | NZGB 3 04/15/20 | 1.98 | 0.03 | 1 year | 2.01 | -0.00 | | |
| AUD | 1.50 | 1.74 | 1.95 | 2.76 | AUD | 2.58 | -0.06 | NZGB 6 05/15/21 | 2.10 | 0.02 | 2 year | 2.15 | 0.00 | | |
| NZD | 1.75 | 1.95 | 2.15 | 3.04 | NZD | 2.77 | -0.03 | NZGB 5 1/2 04/15/23 | 2.38 | 0.00 | 5 year | 2.56 | -0.02 | | |
| EUR | 0.00 | 0.06 | -0.20 | 0.77 | GER | 0.31 | 0.01 | NZGB 2 3/4 04/15/25 | 2.63 | -0.02 | 7 year | 2.79 | -0.03 | | |
| GBP | 0.25 | 0.29 | 0.55 | 1.09 | GBP | 0.99 | 0.02 | NZGB 4 1/2 04/15/27 | 2.77 | -0.02 | 10 year | 3.04 | -0.04 | | |
| JPY | -0.06 | -0.03 | 0.01 | 0.20 | JPY | 0.00 | -0.01 | NZGB 3 1/2 04/14/33 | 3.12 | -0.03 | 15 year | 3.29 | -0.04 | | |
| CAD | 1.00 | 1.17 | 1.89 | 2.26 | CAD | 1.98 | 0.05 | NZGB 2 3/4 04/15/37 | 3.35 | -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: NY close Sat morn

Source: Bloomberg

Contact Details

| | | | |
|--------------------|----------------|---------------------------|----------------------|
| New Zealand | Jason Wong | Senior Markets Strategist | +(64 4) 924 7652 |
| Australia | Ray Attrill | Head of FX Strategy | +(61 2) 9237 1848 |
| | Rodrigo Catril | Currency Strategist | +(61 2) 9237 7109 |
| London | Gavin Friend | Senior Markets Strategist | +(44 0) 20 7710 0898 |

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