

12 December 2017



## Events Round-Up

NZ: Card spending retail (m/m%): 1.2% vs. 0.5% exp.

## Good Morning

The NZD is up against all the major currencies over the past 24 hours after news that Adrian Orr had been confirmed as the new RBNZ Governor. There hasn't been too much movement elsewhere, as markets tread water ahead of key events later this week (FOMC, ECB and BoE meetings, US CPI).

Adrian Orr will stand down from his role as CEO at the New Zealand Super Fund to take up the position as Governor. He was formerly Deputy Governor at the RBNZ and has extensive experience in central banking, including both monetary policy and financial stability.

The NZD moved up around 0.75% on the news of Orr's appointment and it has extended those gains a little further overnight, although it remains within its recent 0.68 – 0.70 trading range. The NZD/AUD touched 0.92, the first time in more than 2 months, but has drifted back a little since. New Zealand yields also increased a few basis points late in the session. The 2 year swap rate was up 2 basis points to 2.17% while the 10 year rate was up 5 basis points to 3.13%.

The market reaction seems to imply that Orr will oversee a somewhat less dovish policy than his predecessor, with the RBNZ's current projections not building in a rate rise until 2019. While it's possible the new RBNZ Governor will see the economic landscape differently than the current leadership, we won't know for sure until he has assumed the position next year and it seems a little early to speculate. The RBNZ will also have a committee deciding the OCR, of which the Governor will have only one vote (albeit an important one if he can influence the committee's thinking).

Elsewhere, there's been little movement in major global FX rates with no major economic data nor central bank speak overnight. News of an explosion in Times Square subway station in New York caused very little reaction, and US stocks pushed ahead a little further to a new record high.

Looking ahead to the next 24 hours, we get UK CPI and if

it breaches 3% YoY the Governor of the Bank of England will need to write a letter of explanation to the Chancellor. The market doesn't anticipate a second rate rise from the BoE until the end of next year given most of the inflationary impulse in the UK is coming from the (post-Brexit) falls in the pound. Following the more constructive mood around Brexit negotiations (including last week's agreement to shift to "Phase 2" of the talks, around the future trading arrangement) we're expecting to see NZD/GBP trend lower from here, below 0.50 next year.

In the US, the Fed will almost certainly hike the Fed Funds Target Range by 25 basis points to 1.25% - 1.50% on Thursday morning NZT. Unlike the last few years, the Fed will have delivered on its so-called 'dot plot' in 2017, hiking rates three times, consistent with what the median voter expected this time last year. The focus will again centre on the Fed's economic and rate forecasts at this meeting. At its previous meeting, the median voter ('dot') expected an additional 3 hikes in 2018. If anything, we think the risks are tilted towards a few participants nudging up their rate forecasts for next year as FOMC members may bump up their forecasts for growth on the back of the recently agreed tax reform plan. A shift towards a 4 hike median for 2018 would be a surprise (it's not our base case) and likely see further flattening in the US yield curve.

Locally, we will await the new government's spending plans when they are included in the official figures for the first time at the HYEPU. Finance Minister Robertson's speech yesterday morning didn't provide any further clues and we will need to wait for Thursday for the details. We expect to see the DMO's bond programme increased over the next few years but in the context of a government that is in very good fiscal shape relative to most other countries in the world.

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## Coming Up

		Period	Cons.	Prev.	NZT
AU	NAB Business Conditions	Nov		21	13:30
UK	CPI YoY	Nov	3.0	3.0	22:30
UK	CPI Core YoY	Nov	2.7	2.7	22:30
GE	ZEW Survey Expectations	Dec	18.0	18.7	23:00
US	NFIB Small Business Optimism	Nov	104	103.8	00:00
US	PPI Ex Food and Energy MoM	Nov	0.2	0.4	02:30

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	0.6914	+1.0	0.6886	0.6930	CHF	0.9907	-0.2		S&P 500	2,658	+0.3	17.6	Oil (Brent)	64.64	+2.0
AUD	0.7532	+0.3	0.7520	0.7545	SEK	8.504	+0.7		Dow	24,368	+0.2	23.3	Oil (WTI)	57.81	+0.8
EUR	1.1787	+0.1	1.1775	1.1812	NOK	8.377	+1.0		Nasdaq	6,879	+0.5	26.3	Gold	1247.1	-0.1
GBP	1.3339	-0.4	1.3339	1.3431	HKD	7.806	+0.0		Stoxx 50	3,582	-0.3	12.0	HRC steel	641.0	+0.9
JPY	113.45	-0.0	113.24	113.64	CNY	6.619	-0.0		FTSE	7,453	+0.8	7.2	CRB	185.4	+0.3
CAD	1.2856	+0.1			SGD	1.351	-0.1		DAX	13,124	-0.2	17.1	Wheat Chic.	425.8	-1.4
NZD/AUD	0.9180	+0.8			IDR	13,552	+0.0		CAC 40	5,387	+0.4	13.1	Sugar	13.93	-0.9
NZD/EUR	0.5866	+1.0			THB	32.62	-0.0		Nikkei	22,939	+0.6	19.8	Cotton	73.21	-0.6
NZD/GBP	0.5183	+1.5			KRW	1,092	-0.0		Shanghai	3,322	+1.0	5.4	Coffee	120.0	-2.2
NZD/JPY	78.44	+1.0			TWD	30.01	+0.0		ASX 200	5,998	+0.1	7.8	WMI powder	2945.0	+0.3
NZD/CAD	0.8889	+1.0			PHP	50.35	-0.4		NZX 50	8,278	+0.5	20.4	<b>Australian Futures</b>		
NZ TWI	73.43	+0.9											3 year bond	97.99	-0.04
													10 year bond	97.42	-0.03
<b>Interest Rates</b>															
	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	1.55	2.01	2.39	USD	2.38	0.00	NZGB 3 04/15/20	1.96	0.02	1 year	1.99	0.01		
AUD	1.50	1.76	1.93	2.73	AUD	2.56	0.03	NZGB 6 05/15/21	2.11	0.03	2 year	2.17	0.02		
NZD	1.75	1.89	2.17	3.13	NZD	2.83	0.04	NZGB 5 1/2 04/15/23	2.40	0.03	5 year	2.64	0.04		
EUR	0.00	0.06	-0.19	0.79	GER	0.29	-0.01	NZGB 2 3/4 04/15/25	2.68	0.04	7 year	2.88	0.04		
GBP	0.50	0.52	0.81	1.29	GBP	1.20	-0.08	NZGB 4 1/2 04/15/27	2.83	0.04	10 year	3.13	0.05		
JPY	-0.04	-0.02	0.04	0.25	JPY	0.05	-0.00	NZGB 3 1/2 04/14/33	3.19	0.04	15 year	3.38	0.05		
CAD	1.00	1.17	1.86	2.25	CAD	1.86	-0.00	NZGB 2 3/4 04/15/37	3.39	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 07:13

Source: Bloomberg

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