

12 October 2017

Events Round-Up

AU: Westpac consumer confid., Oct: 101.4 vs. 97.9 prev.

Good Morning

A dearth of data or news has seen only small changes in financial asset prices. Ahead of the FOMC's September meeting minutes this morning at 7am, currencies were largely tracking sideways in small ranges. The minutes didn't surprise and market reaction was fairly muted.

According to the minutes "Many participants expressed concern that the low inflation readings this year might reflect not only transitory factors, but also the influence of developments that could prove more persistent". Several policy makers said their decision on whether to raise rates this year "would depend importantly on whether the economic data in coming months increased their confidence" on inflation rising toward their 2 percent target, while many officials saw another rate hike warranted this year. The odds of another Fed hike in December remained steady around 75% after the minutes were released.

Overnight, EUR continued to show signs of modest recovery. A declaration of independence of Catalan from Spain has been suspended, while Spain's Rajoy is seeking talks with the rebel regional government before deciding whether or not to trigger the "nuclear" option and take control over the Catalan government. The removal of any immediate risk of chaos in the region has seen the EUR better bid, even as talk from the ECB is looks dovish. The ECB's Smets argued for a gradual and cautious tapering of asset purchases and Visco also called for a gradual normalisation. Bloomberg has run a story that ECB officials agree on keeping a pledge to not raise interest rates until "well past" the end of bond buying. EUR is up 0.4% to 1.1850, the biggest mover on the day.

The NZD has tracked sideways. That's actually a big deal, following an 8-day consecutive fall in the TWI as the country awaits the outcome of coalition government talks. As the talks have progressed it seems that traders have been reducing their NZD exposure, nervous of the outcome and what agreed policies might emerge. This contrasts with the (lack of) reaction in the rates and equity market, where more level-headed investors seem unperturbed. The NZD trades this morning at 0.7075, flat on the day. The crosses are flat with NZD/AUD around 0.91, NZD/GBP around 0.5350 and NZD/JPY around 79.5. The relatively stronger EUR sees NZD/EUR trade more

decisively below the 0.60 mark at 0.5970. A weaker NZD/EUR has been our highest conviction call and we see the downward trend continuing for at least another six months.

US 10-year Treasury yields are slightly lower, trading at 2.34%, about 2bps below the NZ close. Trump will be giving more snippets of his tax reform plans in coming weeks, but the market is less confident of reform passing, giving his very public spat with Senator Corker, a vote he needs to rely on. In Fed-speak, known dove Evans was hosing down rate hike talk, telling reporters that it's too soon to decide on a December rate hike. In an earlier speech he argued that the Fed's decision to allow its balance sheet to begin slowly shrinking this month would deliver some degree of policy tightening. Given that backdrop, he said "there's room for a very honest discussion later this year as to whether or not it's the right time to raise rates." Meanwhile, known hawk George said the Fed should continue to gradually raise interest rates and shouldn't place too much emphasis on meeting its specific 2% inflation target.

The local rates market was quiet yesterday, with rates down 1-2bps across the swaps and government curve, driven by global forces. Attention was diverted elsewhere as Australia sold a record \$3.5bn of new 5-year bonds at a yield of around 2.42% with nearly \$13bn of bids, highlighting that the demand for yield remains insatiable.

Today sees the release of REINZ housing market data, which should remain soft, food prices and the ANZ consumer confidence survey, likely fell after earlier surprising pre-election strength. US PPI data tonight only hold some vague interest with Friday's CPI data much more important. Draghi will appear in a panel discussion tonight, which will be a focus for the market.

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Coming Up

	Period	Cons.	Prev.	NZT	
US	Fed's Williams gives community leaders speech			07:40	
NZ	REINZ house sales (y/y%)	Sep	-20.0	09:00	
NZ	Food Prices (m/m%)	Sep	0.6	10:45	
NZ	ANZ consumer confidence	Oct	129.9	13:00	
AU	Home loans (m/m%)	Aug	0.5	13:30	
EC	Industrial production (m/m%)	Aug	0.6	0.1	22:00
US	PPI final demand (m/m%)	Sep	0.4	0.2	01:30
US	PPI ex food and energy (m/m%)	Sep	0.2	0.1	01:30
US	ECB's Draghi, Fed's Brainard speak on monetary policy panel			03:30	
US	Fed's Powell speaks on prospects for EM economies			03:30	

Source: Bloomberg, BNZ

Foreign Exchange							Equities				Commodities**				
Indicative overnight ranges (*)				Other FX			Major Indices				Price				
	Last	% Day	Low	High		Last	% Day			Last	% Day	Net Day			
NZD	0.7074	+0.1	0.7063	0.7091	CHF	0.9737	-0.2		S&P 500	2,551	+0.0	19.4	Oil (Brent)	56.86	+0.4
AUD	0.7777	-0.0	0.7771	0.7797	SEK	8.056	-0.2		Dow	22,846	+0.1	26.0	Oil (WTI)	51.29	+0.7
EUR	1.1848	+0.3	1.1802	1.1858	NOK	7.931	-0.3		Nasdaq	6,593	+0.1	25.6	Gold	1285.8	-0.4
GBP	1.3212	+0.1	1.3176	1.3218	HKD	7.807	+0.0		Stoxx 50	3,607	+0.2	19.4	HRC steel	600.0	+0.0
JPY	112.45	+0.0	112.08	112.57	CNY	6.590	+0.2		FTSE	7,534	-0.1	6.5	CRB	183.5	+0.2
CAD	1.2495	-0.2			SGD	1.355	-0.1		DAX	12,971	+0.2	22.6	Wheat Chic.	451.8	-0.8
NZD/AUD	0.9096	+0.1			IDR	13,530	+0.1		CAC 40	5,362	+0.1	19.9	Sugar	14.30	+0.9
NZD/EUR	0.5971	-0.3			THB	33.19	-0.2		Nikkei	20,881	+0.3	24.0	Cotton	68.69	-0.4
NZD/GBP	0.5354	+0.0			KRW	1,135	-0.0		Shanghai	3,388	+0.2	10.8	Coffee	126.8	-3.3
NZD/JPY	79.55	+0.1			TWD	30.26	-0.3		ASX 200	5,772	+0.6	5.4	WM powder	3125.0	-0.8
NZD/CAD	0.8839	-0.1			PHP	51.46	-0.0		NZX 50	8,061	+0.3	13.4	Australian Futures		
NZ TWI	74.73	+0.0											3 year bond	97.84	0.00
													10 year bond	97.16	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		Last			
USD	1.25	1.36	1.78	2.29	USD	2.34	-0.02	NZGB 3 04/15/20	2.08	-0.02	1 year	2.03	-0.00		
AUD	1.50	1.71	2.00	2.97	AUD	2.82	-0.01	NZGB 6 05/15/21	2.25	-0.02	2 year	2.21	-0.01		
NZD	1.75	1.93	2.21	3.26	NZD	3.00	-0.02	NZGB 5 1/2 04/15/23	2.56	-0.02	5 year	2.74	-0.01		
EUR	0.00	0.06	-0.17	0.91	GER	0.46	0.02	NZGB 2 3/4 04/15/25	2.83	-0.02	7 year	3.00	-0.02		
GBP	0.25	0.36	0.82	1.41	GBP	1.38	0.02	NZGB 4 1/2 04/15/27	3.00	-0.02	10 year	3.26	-0.01		
JPY	-0.03	-0.04	0.04	0.26	JPY	0.07	0.01	NZGB 3 1/2 04/14/33	3.34	-0.02	15 year	3.51	-0.02		
CAD	1.00	1.17	1.90	2.38	CAD	2.10	-0.02	NZGB 2 3/4 04/15/37	3.55	-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 07:14

Source: Bloomberg

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