

12 September 2017

Events Round-Up

NZ: Card spending total (m/m%), Aug: 0.6 vs. -0.6 prev.

Good Morning

Risk sentiment has bounced higher, leading to a shift out of safe-havens, while the USD has shown signs of recovery. US and European equity markets are up around 1%, the former flirting with another record high, the VIX has fallen to a 10-handle, gold prices are down over 1%, JPY and CHF have slumped more than 1% and global bond yields are higher across the board, a classic risk-on move.

Normally we're scratching around for things that happened to explain market movements. Today we can explain the market by things that didn't happen. Defying predictions, North Korea didn't launch an inter-continental ballistic missile, Hurricane Irma changed course and didn't make a direct hit on Miami and Trump didn't tweet anything stupid, a hat-trick of positive news. Early estimates of the damage from Hurricane Irma to Florida are about a quarter of that feared. As well as the lack of any firing of missiles, the US has watered down a draft resolution on proposed North Korea sanctions to be put to the vote at the UN later in the week. The new draft omits an oil embargo and a freeze of Kim Jong Un's assets, which would improve its chance of success.

The reduction of the fear factor sees US Treasury yields a lot higher, up 5bps for the 2-year rate to 1.31% and up 7bps for the 10-year rate to 2.12%, with half of the latter increase coming after the NZ close. Along with the factors noted above, stronger than expected China inflation data over the weekend has added to the poorer bond market sentiment. Most rates strategists, including ourselves, are breathing a sigh of relief as fundamental forces come back into play. It's pretty simple to construct fair value models that show 10-year Treasuries should be trading closer to 2.40-2.50% and the market has been trading well south of that for much of the past six months.

The rise in US 10-year rates has been greater than elsewhere (UK +5.5bps, Germany +2.5bps) along with the more positive US-centric news, helping the USD to recover after it breached key technical support levels at the end of last week. A mix of cross rate performance (CAD significantly outperforming EUR) sees DXY up 0.5% while the USD TWI majors is up a more modest 0.3%.

JPY is the weakest of the majors, with USD/JPY up a hefty

1.4% to 109.30. EUR has also underperformed, down 0.6% to 1.1965. A number of ECB Governors were speaking overnight, but most attention was placed on comments from Coeure. He acknowledged that the pass-through of the exchange rate onto inflation had likely been lower in recent years and recent EUR strength reflected to some extent the solid expansion in the euro area. But he also gave a warning that if the exchange rate starts to be driven more by "exogenous shocks" then that may lead to an "unwarranted tightening of financial conditions with undesirable consequences for the inflation outlook", which will require careful monitoring.

There's not a lot to say about the NZD which at around 0.7250 is near the same level as the NZ close and down a touch from the weekend close, reflecting improved USD sentiment. NZD/AUD has nudged up a touch further to 0.9030. Base metal prices rose slightly after the hit taken at the end of last week, but we reckon metal prices are prone to fall further after their strong run over the last few months and that would support NZD/AUD.

USD/CNY showed its largest gain in 3 months and is up 0.5% to 6.53. While USD strength is a factor, the PBoC also confirmed that it has removed the reserve requirement for financial institutions trading in FX forwards by cutting it to 0% from 20% currently. The change makes it cheaper for companies and investors to buy dollars while selling the yuan. The PBoC also announced the removal of reserve requirement on foreign banks' yuan deposits. These moves follow the decent appreciation of the yuan and the PBoC is clearly more relaxed about the threat of capital outflows.

The NZ rates curve saw upward pressure as the positive risk sentiment from the weekend developments pervaded. The 2-year swap rate rose by 1bp to 2.16% and the 10-year rate rose by 3bps to 3.07%. The overnight moves will see more upward pressure on the open today. There is a lack of data out over the next 24 hours, with the key release being UK CPI data tonight ahead of the BoE meeting later in the week.

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Coming Up

	Period	Cons.	Prev.	NZT
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	% Day	% Year		Last	Net Day	
NZD	0.7250	-0.2	0.7242	0.7294	CHF	0.9541	+1.0			S&P 500	2,487	+1.0	16.9	Oil (Brent)	53.77	-0.0
AUD	0.8032	-0.3	0.8019	0.8058	SEK	8.005	+0.9			Dow	22,057	+1.2	22.0	Oil (WTI)	48.06	+1.2
EUR	1.1965	-0.6	1.1957	1.2030	NOK	7.846	+1.4			Nasdaq	6,427	+1.1	25.4	Gold	1330.9	-1.2
GBP	1.3174	-0.2	1.3167	1.3222	HKD	7.813	-0.0			Stoxx 50	3,495	+1.4	14.5	HRC steel	638.0	+0.0
JPY	109.32	+1.4	108.32	109.39	CNY	6.529	+0.5			FTSE	7,414	+0.5	9.4	CRB	181.7	+0.3
CAD	1.2114	-0.4			SGD	1.346	+0.3			DAX	12,475	+1.4	18.0	Wheat Chic.	434.8	-0.7
NZD/AUD	0.9026	+0.1			IDR	13,156	-0.2			CAC 40	5,177	+0.6	15.3	Sugar	14.29	+1.4
NZD/EUR	0.6059	+0.4			THB	33.13	-0.0			Nikkei	19,546	+1.4	17.2	Cotton	73.71	-2.5
NZD/GBP	0.5503	+0.0			KRW	1,132	+0.4			Shanghai	3,376	+0.3	11.7	Coffee	131.9	+0.9
NZD/JPY	79.26	+1.2			TWD	30.01	+0.0			ASX 200	5,713	+0.7	9.5	WM powder	3105.0	-0.2
NZ TWI	75.60	+0.2			PHP	50.86	+0.1			NZX 50	7,852	+0.0	7.9			
													Australian Futures			
													3 year bond	97.99	-0.02	
													10 year bond	97.37	-0.06	
Interest Rates								NZ Government Bonds				NZ Swap Yields				
Rates		Swap Yields		Benchmark 10 Yr Bonds				Last		Last		Last				
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day										
USD	1.25	1.31	1.55	2.08	USD	2.12	0.07	NZGB 3 04/15/20	1.99	0.01	1 year	2.01	0.00			
AUD	1.50	1.74	1.96	2.81	AUD	2.60	0.03	NZGB 6 05/15/21	2.11	0.01	2 year	2.16	0.01			
NZD	1.75	1.95	2.16	3.07	NZD	2.79	0.02	NZGB 5 1/2 04/15/23	2.40	0.01	5 year	2.58	0.02			
EUR	0.00	0.06	-0.20	0.79	GER	0.34	0.02	NZGB 2 3/4 04/15/25	2.65	0.02	7 year	2.82	0.02			
GBP	0.25	0.29	0.58	1.13	GBP	1.05	0.06	NZGB 4 1/2 04/15/27	2.79	0.02	10 year	3.07	0.03			
JPY	-0.06	-0.03	0.02	0.20	JPY	0.01	0.01	NZGB 3 1/2 04/14/33	3.14	0.02	15 year	3.32	0.03			
CAD	1.00	1.17	1.90	2.29	CAD	2.02	0.04	NZGB 2 3/4 04/15/37	3.38	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 06:52

Source: Bloomberg

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