

13 December 2017



Events Round-Up

- AU: NAB Business Conditions, Nov: 12 vs. 21 prev.
- UK: CPI (y/y%), Nov: 3.1% vs. 3.0% exp.
- UK: CPI core (y/y%), Nov: 2.7% vs. 2.7% exp.
- GE: ZEW Survey Expectations, Dec: 17.4 vs 18.0 exp.
- US: PPI Ex Food and Energy (m/m%): 0.3% vs. 0.2% exp.

Good Morning

Most market moves were again reasonably modest overnight, US stocks inching ahead to new highs once more, as markets await the Fed meeting tomorrow morning and US CPI. The NZD has risen a little further against most major currencies again overnight, but on no discernible news. The AUD has been supported by news of M&A activity.

The NZD has maintained its shift to the upper end of the 0.68 – 0.70 trading range against the USD since Adrian Orr was announced as the new RBNZ Governor. Overnight, the NZD met some resistance near 0.6950 and has drifted a little lower since. The NZD is higher against all the major crosses overnight with the exception of the AUD.

The AUD strengthened overnight, brushing off yesterday's fall in the NAB Business Survey, on news of a takeover bid for Australian-owned shopping mall operator, Westfield. Unibail-Rodamco, a European owner of shopping malls, has agreed to buy Westfield for A\$32.7bn, of which around 35% will be paid in cash. While the deal won't likely be closed until mid-2018, the FX market has moved to anticipate the associated hedging of the cash proceeds back to AUD. In addition to the Westfield deal, Zurich Life yesterday announced that they would buy ANZ's Australian life insurance business for A\$2.85bn. The AUD is up around 0.2% since this time yesterday while the NZDAUD is down slightly, a bit below 0.92. In isolation, the NAB survey was a bit of a disappointment, with Business Conditions falling sharply from last month, although our Australian economists point out that most components remain at reasonably healthy levels.

The USD strengthened a bit against the major currencies overnight and US yields edged up a few basis points ahead of the all-important CPI release and Fed meeting tomorrow morning. The US PPIs – both headline and core – were a little higher than expected overnight, although there has historically been little read-across to CPI so we

wouldn't read too much into it. Press reports suggest House and Senate Republicans are on track to agree a final wording of the tax reform bill this week, although this seems very well anticipated. Both the USD and US yields remain within recent trading ranges. The VIX remains stuck below 10, reflecting the subdued volatility across most markets at the moment.

UK headline CPI was slightly higher than expected at 3.1% which will mean the BoE Governor will need to write to the Chancellor explaining the deviation from the 2% target at the February MPC meeting. More importantly, core CPI was unchanged at 2.7%, on expectations, and market expectations of the next BoE hike haven't shifted from the end of 2018. NZD/GBP has pushed above 0.52 overnight although we retain our bias for that cross to move lower next year as we expect the markets will focus on the prospect of a transitional deal between the UK and the EU for after March 2019. EU leaders meet later this week with the (leaked) draft wording showing that discussions on a future trade deal with the UK will start in March. Discussions between January and March will focus on agreeing the conditions for the transition period, with the EU likely to insist the UK respects EU rules during this time. If the EU's negotiating strategy with Greece a few years ago is any guide, the UK shouldn't expect many concessions through the process.

There wasn't much to focus on domestically yesterday with no data released. New Zealand swap rates were mostly unchanged, with the 2 year swap still stuck in its 2.10% - 2.20% range. Local rates markets will look to the important US events over the next day as well as the Half-Year Economic and Fiscal Update (HYEFU) for direction. We will be looking at the government's spending plans and accompanying Budget Policy Statement on Thursday for their implications for both our economic forecasts and market outlook.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ Food Prices MoM	Nov		-1.1	10:45
AU RBA Governor Lowe Gives Speech in Sydney				11:15
AU Westpac Consumer Conf Index	Dec		99.7	12:30
UK ILO Unemployment Rate 3Mths	Oct	4.2	4.3	22:30
US CPI Ex Food and Energy MoM	Nov	0.2	0.2	02:30
US CPI Ex Food and Energy YoY	Nov	1.8	1.8	02:30

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	0.6927	+0.2	0.6924	0.6953	CHF	0.9923	+0.1			S&P 500	2,668	+0.3	18.2	Oil (Brent)	63.56	-1.8
AUD	0.7550	+0.3	0.7529	0.7580	SEK	8.447	-0.6			Dow	24,535	+0.6	23.9	Oil (WTI)	57.15	-1.5
EUR	1.1724	-0.4	1.1718	1.1793	NOK	8.365	-0.2			Nasdaq	6,874	-0.0	27.0	Gold	1242.4	-0.4
GBP	1.3316	-0.2	1.3311	1.3380	HKD	7.808	+0.0			Stoxx 50	3,600	+0.5	12.5	HRC steel	641.0	+0.9
JPY	113.62	+0.1	113.37	113.75	CNY	6.622	+0.0			FTSE	7,500	+0.6	8.9	CRB	184.2	-0.8
CAD	1.2882	+0.2			SGD	1.354	+0.2			DAX	13,184	+0.5	17.8	Wheat Chic.	430.3	+0.5
NZD/AUD	0.9175	-0.1			IDR	13,574	+0.2			CAC 40	5,427	+0.3	14.0	Sugar	13.77	-1.2
NZD/EUR	0.5908	+0.6			THB	32.61	-0.0			Nikkei	22,866	-0.3	18.8	Cotton	73.33	+0.3
NZD/GBP	0.5202	+0.4			KRW	1,092	+0.0			Shanghai	3,281	-1.2	4.0	Coffee	119.3	-0.6
NZD/JPY	78.70	+0.3			TWD	30.02	+0.0			ASX 200	6,013	+0.2	8.4	WMI powder	2945.0	+0.2
NZD/CAD	0.8923	+0.4			PHP	50.46	+0.2			NZX 50	8,281	+0.0	20.9	Australian Futures		
NZ TWI	73.64	+0.2												3 year bond	97.98	0.00
														10 year bond	97.43	0.01
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	1.56	2.03	2.43	USD	2.42	0.03	NZGB 3 04/15/20	1.97	0.01	1 year	1.99	0.00			
AUD	1.50	1.76	1.95	2.73	AUD	2.52	-0.04	NZGB 6 05/15/21	2.11	0.00	2 year	2.17	0.00			
NZD	1.75	1.88	2.17	3.14	NZD	2.85	0.01	NZGB 5 1/2 04/15/23	2.41	0.01	5 year	2.65	0.01			
EUR	0.00	0.06	-0.18	0.81	GER	0.31	0.02	NZGB 2 3/4 04/15/25	2.69	0.01	7 year	2.89	0.01			
GBP	0.50	0.52	0.81	1.31	GBP	1.22	0.02	NZGB 4 1/2 04/15/27	2.85	0.01	10 year	3.14	0.00			
JPY	-0.04	-0.02	0.04	0.25	JPY	0.05	-0.00	NZGB 3 1/2 04/14/33	3.20	0.01	15 year	3.38	0.00			
CAD	1.00	1.17	1.87	2.26	CAD	1.88	0.02	NZGB 2 3/4 04/15/37	3.40	0.01						

* 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 07:00

Source: Bloomberg

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