

13 November 2017



Events Round-Up

NZ: Card spending retail (m/m%), Oct: 0.3 vs. 0.5 exp.

UK: Industrial production (m/m%), Sep: 0.7 vs. 0.3 exp.

US: U. of Mich. sentiment, Nov: 97.8 vs. 100.8 exp.

Good Morning

There was more action in the bond market than currency markets on Friday, with US 10-year rates back retesting the 2.40% mark.

A lack of data and newsflow made for a dull trading day on Friday, but there was some notable price action in bond markets. There was a bear steepening of the US Treasury curve, with the 2-year rate up 2bps to 1.65%, a fresh high of the cycle, and the 10-year rate up 6bps to 2.40%, a level it has flirted with a number of times over the past six months but failed to push on from for more than a few days.

It seemed that US rates simply followed European rates higher, with the UK 10-year rate up 8bps to 1.34% and Germany's 10-year rate up 3bps to 0.41%. The 2-day rise in German rates recovers half of the fall in yield seen after the ECB's "dovish taper".

For the UK, Brexit negotiations still don't seem to be going too well. EU's chief negotiator Barnier warned that EU leaders were prepared to push back the opening of future relationship talks for as long as necessary until "real and sincere" progress was made on all key divorce issues. The FT reports that the EU is demanding Britain accept that Northern Ireland may need to remain inside the European customs union and single market after Brexit to avoid "a hard border on the island of Ireland", in direct contradiction to the UK's position. Meanwhile the Times reports that 40 Conservative MPs are said to have agreed to sign a letter of no confidence in PM May. Another 8 signatories would force a leadership challenge. What a mess.

Nevertheless GBP was the best performing major currency on Friday, although the 0.4% gain to 1.32 was fairly modest. On the economic front UK industrial

production in September was slightly better than forecast. The only other data of note was a drop in US consumer sentiment from a 13-year high, which only had a passing impact on the USD, which was flat for the session.

The NZD remained in a tight range, closing the week at 0.6935, about 30pips higher than where it started the week, and the modest rise post Thursday's MPS nearly entirely unwound. It feels like some lurking selling pressure is keeping a lid on the currency, alongside the AUD and emerging market currencies, suggesting it is part of a global macro theme at present. Our risk appetite index has slipped to a 2-month low of 76%, driven by wider credit spreads and the VIX index, which has crept up from recent lows.

NZD/AUD finished the week on a flat note around the 0.9050 mark and up about 20pips from where it started the week. There's not much to say about the other majors, it really was an uneventful day and week for currencies overall.

There wasn't much price action in the local rates market on Friday, with the bond market now closer to square after the significant volatility in rates earlier in the week after the shock deferral of the new bond issue by the DMO. The 10 year government bond rate closed up by half a basis point to 2.93%, with upside pressure likely today after the US rates sell-off Friday night. In the swaps market the 2-year rate fell by less than 1bps to 2.205%, while the 10-year rate rose by 2bps to 3.21%.

The economic calendar is very light over the coming 24 hours. The focus this week will be US CPI figures due Wednesday night and the ECB conference, where a number of major central bank heads will be talking from Tuesday night.

jason.k.wong@bnz.co.nz

Coming Up

	Period	Cons.	Prev.	NZT
AU	RBA's Debelle Gives Speech in Sydney			11:15
US	Fed's Harker Speaks in Tokyo on Balance Sheet Unwind			13:10

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	0.6935	-0.2	0.6924	0.6954	CHF	0.9961	+0.2	S&P 500	2,582	-0.1	19.3	Oil (Brent)	63.52	-0.6
AUD	0.7661	-0.2	0.7654	0.7695	SEK	8.353	-0.3	Dow	23,422	-0.2	24.3	Oil (WTI)	56.74	-0.8
EUR	1.1665	+0.2	1.1623	1.1678	NOK	8.134	+0.0	Nasdaq	6,751	+0.0	28.9	Gold	1274.2	-1.0
GBP	1.3196	+0.4	1.3113	1.3230	HKD	7.802	+0.0	Stoxx 50	3,594	-0.5	18.6	HRC steel	609.0	-0.2
JPY	113.53	+0.1	113.22	113.64	CNY	6.641	+0.0	FTSE	7,433	-0.7	10.4	CRB	191.6	-0.1
CAD	1.2682	-0.0			SGD	1.360	+0.1	DAX	13,127	-0.4	23.1	Wheat Chic.	449.0	+0.9
NZD/AUD	0.9052	+0.1			IDR	13,543	+0.2	CAC 40	5,381	-0.9	19.9	Sugar	14.96	+0.5
NZD/EUR	0.5945	-0.4			THB	33.12	+0.0	Nikkei	22,681	-0.8	30.5	Cotton	69.05	+1.1
NZD/GBP	0.5255	-0.5			KRW	1,117	+0.1	Shanghai	3,433	+0.1	7.4	Coffee	130.9	+0.8
NZD/JPY	78.73	-0.1			TWD	30.17	-0.0	ASX 200	6,029	-0.3	12.3	WMI powder	2840.0	+0.0
NZD/CAD	0.8795	-0.2			PHP	51.25	-0.0	NZX 50	7,974	-0.6	19.1	Australian Futures		
NZ TWI	73.70	-0.1										3 year bond	98.01	-0.01
												10 year bond	97.33	-0.03
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	1.41	1.86	2.38	USD	2.40	0.06	NZGB 3 04/15/20	2.04	-0.00	1 year	2.03	-0.01	
AUD	1.50	1.71	1.92	2.85	AUD	2.61	0.02	NZGB 6 05/15/21	2.19	-0.00	2 year	2.21	-0.01	
NZD	1.75	1.94	2.21	3.21	NZD	2.93	0.01	NZGB 5 1/2 04/15/23	2.48	-0.00	5 year	2.71	0.00	
EUR	0.00	0.06	-0.20	0.88	GER	0.41	0.04	NZGB 2 3/4 04/15/25	2.75	0.00	7 year	2.95	0.02	
GBP	0.50	0.53	0.83	1.39	GBP	1.34	0.08	NZGB 4 1/2 04/15/27	2.93	0.01	10 year	3.21	0.02	
JPY	-0.04	-0.04	0.03	0.24	JPY	0.04	0.01	NZGB 3 1/2 04/14/33	3.28	0.00	15 year	3.44	0.01	
CAD	1.00	1.17	1.79	2.29	CAD	1.97	0.04	NZGB 2 3/4 04/15/37	3.47	0.00				

* 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

Jason Wong

Senior Markets Strategist
+64 4 924 7652

National Australia Bank

Ray Attrill

Head of FX Strategy
+61 2 9237 1848

Rodrigo Catril

Currency Strategist
+61 2 9293 7109

Gavin Friend

Senior Markets Strategist
+44 20 7710 2155

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