

13 October 2017

Events Round-Up

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

US: Fed's Williams gives community leaders speech

NZ: REINZ house sales (y/y%), Sep: -26.2 vs -20.0 prev.

NZ: Food Prices (m/m%), Sep: -0.2 vs 0.6 prev.

NZ: ANZ consumer confidence, Oct: 126.3 vs 129.9 prev.

AU: Home loans (m/m%), Aug: 1.0 vs 0.5 exp.

EC: Industrial production (m/m%), Aug: 1.4 vs 0.6 exp.

US: PPI final demand (m/m%), Sep: 0.4 vs 0.4 exp.

US: PPI ex food and energy (m/m%), Sep: 0.4 vs 0.2 exp.

US: ECB's Draghi, Fed's Brainard speak on panel

US: Fed's Powell speaks on prospects for EM economies

Good Morning

GBP hogged the limelight overnight, with NZD and AUD also performing strongly. Equity markets are little changed. US bond yields have slipped lower, as have oil prices.

GBP has had a wild ride overnight on the ebb and flow of Brexit talk headlines. It was initially sold aggressively after EU chief negotiator, Michel Barnier, said that Brexit talks had hit an impasse over what the UK owes when it leaves. GBP/USD cascaded down toward 1.3120 from where we left it around 1.3260 yesterday afternoon. After licking its wounds, GBP then gapped higher on reports that Barnier may offer the UK a two-year transitional membership of the EU's. The proposal deal would be linked to the UK meeting its financial obligations to the EU and all other responsibilities of being a member. In the least this could relieve some time pressure on Brexit negotiations, if the UK were to agree. GBP/USD rocketed back to around 1.3260. The pair remain skittish but currently sit around 1.3280, up around 0.4% on the day.

Action was more subdued elsewhere. The US dollar is little changed on the night. It did rally initially supported by higher than expected core PPI inflation data. PPI ex food and energy prices rose 0.4% in the month, putting annual inflation at 2.2%. Still, the reaction was relatively muted with more focus on tonight's CPI figures that are expected to show headline CPI rising to 2.3% from 1.9%. This would support the idea of the Fed hiking in December with attendant US dollar support.

The DXY US dollar index currently sits flat on the day,

halting a four day decline. EUR/USD has checked its recent run higher, down 0.1% to currently sit around 1.1840. Better than expected industrial production data had little impact on the single currency. USD/JPY traded in a tight range, dipping late in the session as US yields fell. The pair opens this morning down 0.3%, around 112.20.

NZD and AUD have both extended yesterday's gains, on little new news although the VIX fear index falling back to an even more risk loving level sub-10 would not have hurt. NZD/USD is up 0.8% to currently sit around 0.7140 pushing above the tight 60pip range that had previously contained it all week. AUD/USD is up 0.6% at close to 0.7830, with NZD/AUD up 0.2% opening this morning around 0.9120.

A less than usual dip in September food prices, in our view, adds to the case that next week's Q3 CPI will print a touch higher than the RBNZ forecast in its August MPS. But it is a stretch to suggest that food prices drove the NZD higher. It is more a case of recouping losses from earlier in the week. NZD is higher on the crosses, with NZD/EUR up 1.0%, punching back above 0.6000. NZD/JPY is up 0.5% at around 80.1, with NZD/GBP up 0.4% to currently sit close to 0.5380. The NZ TWI has bounced off its year to date lows over the past two days. The NZD shrugged off yesterday's news of marginally lower consumer confidence, very weak house sales and weakening dairy futures yesterday as Fonterra lifted future auction offer volumes above previous forecasts. The latter will focus eyes on next week's GDT auction. Lower international dairy prices would make Fonterra's current \$6.75 milk price forecast difficult to achieve.

We are still no clearer on exactly when the outcome of the now concluded coalition talks will be announced. But NZ First leader, Winston Peters, said it would be known by the end of next week. The wait continues.

The Swedish Krona was the only other major mover, down 0.9% against the USD to sit at the bottom of the currency leaderboard after inflation rose less than expected.

Despite a brief spike higher on the US PPI inflation data, US 10-year Treasury yields generally leaked lower overnight supported late by a strong 30-year auction. US 10-year yields currently sit around 2.32%, down 2bps, ahead of the important US CPI figures tonight. A circa 1% pull back in oil prices did the bond rally no harm. There was no material policy comment from the two Fed speakers.

Yesterday, NZ swap and bond yields generally fell between 1 and 2 basis points across the curve, taking their cue from the previous session offshore. Local rate movements have remained minimal ahead of the important US CPI data tonight, NZ's CPI next Tuesday and knowing the outcome of the NZ coalition talks.

Looking ahead, there is a full calendar with most focus likely to be on the US CPI tonight where it is expected to rise – at least at the headline level. Today's Chinese trade data is expected to show annual growth lifting from a month earlier. The RBA's Financial Stability Review will be worth a look in the context of more global discussion about the interaction between monetary policy and financial stability.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ BusinessNZ Manufacturing PMI	Sep		57.9	10:30
AU RBA Financial Stability Review				13:30
CH Imports YoY	Sep	14.7	13.3	
CH Exports YoY	Sep	10	5.5	
CH Trade Balance	Sep	38	42	
US CPI MoM	Sep	0.6	0.4	01:30
US CPI Ex Food and Energy MoM	Sep	0.2	0.2	01:30
US CPI YoY	Sep	2.3	1.9	01:30
US CPI Ex Food and Energy YoY	Sep	1.8	1.7	01:30
US Retail Sales Advance MoM	Sep	1.7	-0.2	01:30
US Retail Sales Ex Auto and Gas	Sep	0.4	-0.1	01:30
US U. of Mich. Sentiment	Oct P	95	95.1	03:00
US Fed's Evans Speaks on Economy and Monetary Policy				03:25
US Fed's Kaplan Speaks in Boston				04:30
US Fed's Powell Speaks at Boston Fed Economic Conference				06:00

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	0.7140	+0.8	0.7103	0.7145	CHF	0.9748	+0.1	S&P 500	2,554	-0.0	19.4	Oil (Brent)	56.39	-1.0
AUD	0.7831	+0.6	0.7807	0.7836	SEK	8.117	+0.8	Dow	22,862	-0.0	26.0	Oil (WTI)	50.65	-1.3
EUR	1.1843	-0.1	1.1827	1.1880	NOK	7.896	-0.3	Nasdaq	6,603	-0.0	26.0	Gold	1293.3	+0.6
GBP	1.3278	+0.4	1.3122	1.3291	HKD	7.809	+0.0	Stoxx 50	3,606	-0.1	19.9	HRC steel	595.0	-0.8
JPY	112.20	-0.3	112.13	112.45	CNY	6.588	-0.0	FTSE	7,556	+0.3	7.6	CRB	183.4	-0.1
CAD	1.2456	-0.0			SGD	1.352	-0.2	DAX	12,983	+0.1	23.4	Wheat Chic.	449.8	-0.6
NZD/AUD	0.9118	+0.2			IDR	13,504	-0.2	CAC 40	5,361	+0.1	20.4	Sugar	14.28	-0.1
NZD/EUR	0.6029	+1.0			THB	33.10	-0.2	Nikkei	20,955	+0.4	24.9	Cotton	67.89	-1.2
NZD/GBP	0.5377	+0.4			KRW	1,133	-0.2	Shanghai	3,386	-0.1	10.6	Coffee	126.4	-0.4
NZD/JPY	80.11	+0.6			TWD	30.21	-0.2	ASX 200	5,794	+0.4	6.6	WM powder	3060.0	-2.1
NZD/CAD	0.8894	+0.8			PHP	51.40	-0.1	NZX 50	8,068	+0.1	13.3	Australian Futures		
NZ TWI	75.26	+0.7										3 year bond	97.86	0.02
												10 year bond	97.19	0.02
Interest Rates						NZ Government Bonds				NZ Swap Yields				
	Rates		Swap Yields		Benchmark 10 Yr Bonds									
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day	Last				Last			
USD	1.25	1.36	1.77	2.28	USD	2.32	-0.02	NZGB 3 04/15/20	2.07	-0.01	1 year	2.02	-0.00	
AUD	1.50	1.71	2.00	2.94	AUD	2.80	-0.02	NZGB 6 05/15/21	2.24	-0.02	2 year	2.20	-0.01	
NZD	1.75	1.92	2.20	3.25	NZD	2.98	-0.02	NZGB 5 1/2 04/15/23	2.54	-0.02	5 year	2.72	-0.02	
EUR	0.00	0.06	-0.17	0.89	GER	0.45	-0.02	NZGB 2 3/4 04/15/25	2.82	-0.02	7 year	2.98	-0.02	
GBP	0.25	0.37	0.83	1.41	GBP	1.38	0.00	NZGB 4 1/2 04/15/27	2.98	-0.02	10 year	3.25	-0.02	
JPY	-0.03	-0.04	0.03	0.26	JPY	0.07	0.00	NZGB 3 1/2 04/14/33	3.32	-0.02	15 year	3.48	-0.02	
CAD	1.00	1.17	1.91	2.36	CAD	2.09	-0.02	NZGB 2 3/4 04/15/37	3.53	-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 07:29

Source: Bloomberg

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