

13 September 2017

Events Round-Up

AU: NAB business conditions, Aug: 15 vs. 14 prev.
AU: NAB business confidence, Aug: 5 vs 12 prev.
UK: CPI (y/y%), Aug: 2.9 vs. 2.8 exp.
UK: CPI core (y/y%), Aug: 2.7 vs. 2.5 exp.
US: NFIB small business opt., Aug: 105.3 vs. 104.8 exp.

Good Morning

Yesterday's risk-on move has been extended, with the S&P500 up to another record high and higher global rates across the board. GBP is the best performer after stronger inflation data, while the NZD has been supported by a shock political poll.

Market sentiment remains positive, following on from yesterday's themes, with the market having less fear about the US-North Korea war of words and Hurricane Irma proving to be less devastating than predicted. The UN voted to adopt new sanctions against North Korea, although as we reported yesterday the US had dropped some of its demands like a complete oil embargo. US Treasury Secretary Munchin has warned that the US might impose additional sanctions on China, such as cutting off access to the US financial system if it doesn't follow through on the deal.

The USD has managed to hang onto its gains of the previous session, providing some hope that although some key technical support levels were broken last week, there might not be any follow-through.

GBP has been in the spotlight after UK CPI inflation data were higher than expected, with annual core inflation of 2.7% reaching a six-year high. This sets the scene for a more hawkish BoE policy statement later this week. After the last meeting the market ignored Governor Carney's assessment that policy may need to be tightened by a "somewhat greater extent" than investors anticipate. After the stronger CPI figures, the OIS market moved to price in a rate hike this year as a better-than-even chance, while the UK 10-year rate rose by 9bps to 1.13%. GBP is the top performer for the day, up 0.9% to 1.3290, its highest level in a year.

In other UK news, Brexit legislation that allows the UK government to copy EU law onto the domestic statute book passed its first hurdle, allowing it to move onto the committee stage. If the law is ultimately passed, it avoids a potentially "chaotic" scenario when the UK leaves the EU in 2019.

The NZD was out of favour during afternoon trading yesterday, alongside the AUD after the NAB survey reported a surprising fall in business confidence. From a low around 0.7220 the currency gained 50 pips after a surprise result from the latest Newshub political poll showing a surge in support for National at the expense of Labour and the Greens (who would fall completely out of Parliament). On this poll, National could govern alone, one permutation that hasn't been given much credence, given it seemed such a low probability event. The NZD has held onto those gains and added some, and currently sits at 0.7290. Our view throughout this election campaign has been to fade any knee-jerk currency reactions, and the same applies here. There are far too many moving parts to be confident of any sustained impact on the NZD one way or the other no matter what the make-up of the next government.

The NZD has lost ground to the strong GBP, slipping below 0.55 but is up on all the other crosses. NZD/AUD broke through 0.91 last night and has since settled a little below that at 0.9090. Positive risk sentiment sees JPY losing further ground, with USD/JPY up through 110 and NZD/JPY up 1.2% to 80.3. EUR has been range-trading and sits around 1.1960, while NZD/EUR broke through 0.61 for the first time in a few weeks.

In the bond market higher UK bond yields spilled over into German and US rates, with higher risk appetite supporting the move. Germany's 10 year rate rose by 6bps to 0.40% while the US 10-year rate is up 4bps to 2.17%, now 16bps higher than Friday's intra-day low. Fed Fund futures are back to pricing in about a 1 in 3 chance of a hike by year-end but one still has to look beyond 2018 to see the next full rate hike priced in.

It's not all bad news in the bond market. Austria sold €3.5bn of 100-year bonds priced at just 2.11%, the largest century bond to hit the market, with bids totalling €11.4bn.

NZ's rates market performed well yesterday. Receiving interest in the swaps market was prevalent all day and the swap curve showed little change in yield despite the upward pressure to rates from global forces. A 5-year Kauri from the World Bank was announced, adding to the receiving theme. Upward pressure from global forces will continue today.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ Food prices (m/m%)	Aug		-0.2	10:45
AU Westpac consumer confidence	Sep		95.5	12:30
UK Unemployment rate (%)	Jul	4.4	4.4	20:30
EC Industrial production (m/m%)	Jul	0.1	-0.6	21:00
US PPI final demand (m/m%)	Aug	0.3	-0.1	00:30
US PPI ex food and energy (m/m%)	Aug	0.2	-0.1	00:30

Source: Bloomberg, BNZ

Foreign Exchange						Equities				Commodities**				
Indicative overnight ranges (*)					Other FX		Major Indices				Price			
	Last	% Day	Low	High		Last	% Day			Last	Net Day			
NZD	0.7290	+0.5	0.7217	0.7321	CHF	0.9605	+0.4	S&P 500	2,493	+0.2	15.5	Oil (Brent)	54.25	+0.8
AUD	0.8019	-0.1	0.8011	0.8049	SEK	7.975	-0.5	Dow	22,110	+0.2	20.7	Oil (WTI)	48.25	+0.4
EUR	1.1967	+0.1	1.1926	1.1978	NOK	7.842	+0.0	Nasdaq	6,437	+0.1	23.5	Gold	1330.9	-0.1
GBP	1.3289	+1.0	1.3171	1.3298	HKD	7.812	+0.0	Stoxx 50	3,513	+0.5	16.6	HRC steel	638.0	+0.0
JPY	110.09	+0.6	109.30	110.20	CNY	6.535	+0.1	FTSE	7,401	-0.2	10.4	CRB	181.4	-0.1
CAD	1.2178	+0.6			SGD	1.347	+0.0	DAX	12,525	+0.4	20.1	Wheat Chic.	442.0	+1.7
NZD/AUD	0.9091	+0.6			IDR	13,200	+0.3	CAC 40	5,209	-0.3	17.3	Sugar	14.02	-1.9
NZD/EUR	0.6092	+0.4			THB	33.12	-0.0	Nikkei	19,777	+1.2	18.2	Cotton	70.71	-4.1
NZD/GBP	0.5486	-0.5			KRW	1,129	-0.3	Shanghai	3,379	+0.1	11.8	Coffee	135.1	+2.4
NZD/JPY	80.26	+1.1			TWD	30.02	+0.0	ASX 200	5,746	+0.6	10.3	WM powder	3100.0	-0.3
NZ TWI	76.05	+0.5			PHP	50.92	+0.1	NZX 50	7,840	-0.1	8.2	Australian Futures		
											3 year bond	97.965	-0.03	
											10 year bond	97.33	-0.03	
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	Last	Last	Last			
USD	1.25	1.32	1.57	2.12	USD	2.17	0.04	NZGB 3 04/15/20	1.99	-0.01	1 year	2.01	0.00	
AUD	1.50	1.74	1.97	2.85	AUD	2.64	0.04	NZGB 6 05/15/21	2.12	0.00	2 year	2.15	-0.01	
NZD	1.75	1.94	2.15	3.07	NZD	2.80	0.00	NZGB 5 1/2 04/15/23	2.41	0.01	5 year	2.58	-0.00	
EUR	0.00	0.06	-0.19	0.84	GER	0.40	0.07	NZGB 2 3/4 04/15/25	2.67	0.02	7 year	2.82	-0.00	
GBP	0.25	0.29	0.65	1.23	GBP	1.14	0.09	NZGB 4 1/2 04/15/27	2.80	0.02	10 year	3.07	0.00	
JPY	-0.06	-0.03	0.03	0.23	JPY	0.02	0.01	NZGB 3 1/2 04/14/33	3.15	0.00	15 year	3.32	0.00	
CAD	1.00	1.17	1.91	2.33	CAD	2.05	0.03	NZGB 2 3/4 04/15/37	3.38	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: NZT 06:56

Source: Bloomberg

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