

14 December 2017



Events Round-Up

- NZ: Food Prices (m/m%), Nov: -0.4% vs. -1.1% prev.
- AU: Westpac Consumer Conf, Nov: 103.3 vs. 99.7 prev.
- UK: Unemployment Rate, Oct: 4.3% vs. 4.2% exp.
- UK: Average weekly earnings ex-Bonuses (y/y%), Oct: 2.3% vs. 2.2% exp.
- US: CPI Ex Food and Energy (m/m%), Dec: 0.117% vs 0.2% exp.
- US: CPI Ex Food and Energy (y/y%): 1.7% vs. 1.8% exp.

Good Morning

The USD is weaker across the board and yields lower overnight after US core CPI surprised to the downside. The NZD is the top performer. US stocks are also a bit higher, with the current low inflation backdrop seen as supportive of risk assets. Attention now turns to the FOMC December meeting at 8am with the market's focus firmly on how many hikes the Fed projects for 2018.

The NZD rose to a touch below 0.70 overnight, its highest level since October and up almost a percent since this time yesterday. The NZD/AUD is a little higher overnight, just below 0.92. The main news overnight was the downside surprise in US core CPI. Inflation will remain below the Fed's target at the end of 2017 for yet another year, despite the continued falls in the US unemployment rate. While we expect US inflation to pick up next year as the tightening labour market exerts some upward pressure on prices and some of the 'one-off' factors that have depressed CPI this year roll off, markets will continue to debate whether low inflation is structural or temporary.

US yields fell in response to the CPI release, with the US 10 year rate back below 2.40%, down a few basis points. The 2 year rate – more linked to the near-term Fed outlook – is unchanged as markets await the outcome of the FOMC meeting at 8am. The CPI release came too late to influence the Fed's projections for this meeting, although Chair Yellen will undoubtedly get questions on inflation (and whether the Fed's forecast tightening is appropriate) in the press conference. Stocks also rose, with the lack of inflation pressure seen as broadly supportive of a gradual pace of Fed tightening.

Stocks had earlier fallen a little after the results from the Senate election in Alabama showed Republican Roy Moore had lost out to Democrat Doug Jones. The result cuts the Republicans' majority in the Senate to a wafer-

thin 51-49. Republicans are hoping to have a vote on the tax reform bill before Jones takes his seat in the Senate. One Republican, Bob Corker, has already committed to voting against the bill, and if Jones is in the Senate the Republicans can't afford any more dissenters. Press reports overnight suggested that a tentative deal has been agreed between House and Senate Republicans which will see the US corporate tax rate cut to 21%, effective from 2018, a year earlier than the Senate's original proposal. The reaction to the election result suggests that the market sees a rejection of the tax reform bill as a tail risk at this stage.

The AUD was just behind the NZD amongst the top performing currencies overnight. Having almost touched 0.75 earlier in the week, the AUD is back above 0.76 as we speak. A more upbeat consumer confidence release yesterday helped the AUD at the margin, but mostly its rise has been about the disappointment in US CPI. The Australian employment report today will be the focus for the market. Looking ahead to next year our NAB colleagues expect the AUD to ultimately weaken below 0.75 the Fed raises its cash rate above the RBA (the Fed Funds Target Range will be 1.25% - 1.50% later today, assuming the Fed hikes as planned, while the RBA cash rate target is 1.50%).

Elsewhere, the GBP rose 0.3% overnight after the UK labour market report showed that wages had risen as a slightly faster pace than forecast. The surprise wasn't big enough though to materially change expectations for the Bank of England policy outlook. The Bank of England meets tomorrow, although the next rate rise isn't expected until later next year.

Locally, the focus will be on the HYEFU today but more immediate attention will be on the Fed. A more dovish Fed will almost certainly see the NZD break out to the upside of its 0.68 - 0.70 trading range.

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Coming Up

	Period	Cons.	Prev.	NZT
US FOMC Rate Decision (Upper Bound)	Dec	1.5	1.25	08:00
NZ Half-Year Economic & Fiscal Update				13:00
AU Employment Change	Nov	19	3.7	13:30
AU Unemployment Rate	Nov	5.4	5.4	13:30
CH Industrial Production YoY	Nov	6.1	6.2	15:00
EC Markit Eurozone Manufacturing PMI	Dec P	59.7	60.1	22:00
EC Markit Eurozone Services PMI	Dec P	56	56.2	22:00
UK Retail Sales Ex Auto Fuel MoM	Nov	0.4	0.1	22:30
UK Bank of England Bank Rate	Nov	0.5	0.5	01:00
EC ECB Deposit Facility Rate	Nov	-0.4	-0.4	01:45
US Retail Sales Ex Auto and Gas	Nov	0.4	0.3	02:30

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	0.6994	+0.9	0.6934	0.6999	CHF	0.9886	-0.3				Oil (Brent)	62.77	-0.9
AUD	0.7607	+0.6	0.7554	0.7616	SEK	8.439	+0.2				Oil (WTI)	56.88	-0.4
EUR	1.1766	+0.2	1.1730	1.1771	NOK	8.357	+0.1				Gold	1248.6	+0.6
GBP	1.3356	+0.3	1.3312	1.3377	HKD	7.805	-0.0				HRC steel	642.0	+0.0
JPY	113.10	-0.4	112.95	113.45	CNY	6.620	-0.0				CRB	183.8	+0.2
CAD	1.2862	-0.0			SGD	1.350	-0.1				Wheat Chic.	427.8	+0.9
NZD/AUD	0.9194	+0.2			IDR	13,590	+0.1				Sugar	13.85	+0.6
NZD/EUR	0.5944	+0.6			THB	32.54	-0.2				Cotton	74.09	+1.6
NZD/GBP	0.5237	+0.6			KRW	1,091	-0.1				Coffee	120.1	+1.4
NZD/JPY	79.10	+0.5			TWD	30.04	+0.0				WM powder	2965.0	+0.7
NZD/CAD	0.8996	+0.8			PHP	50.45	-0.0				Australian Futures		
NZ TWI	74.12	+0.7									3 year bond	97.99	0.00
											10 year bond	97.45	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			
USD	1.25	1.57	2.02	2.39	USD	2.38	-0.02	NZGB 3 04/15/20	1.95	-0.01	1 year	1.99	0.00
AUD	1.50	1.76	1.93	2.71	AUD	2.52	0.00	NZGB 6 05/15/21	2.10	-0.01	2 year	2.18	0.00
NZD	1.75	1.88	2.18	3.12	NZD	2.82	-0.03	NZGB 5 1/2 04/15/23	2.39	-0.02	5 year	2.65	-0.00
EUR	0.00	0.06	-0.19	0.80	GER	0.31	0.00	NZGB 2 3/4 04/15/25	2.67	-0.02	7 year	2.88	-0.01
GBP	0.50	0.52	0.81	1.30	GBP	1.22	-0.01	NZGB 4 1/2 04/15/27	2.82	-0.03	10 year	3.12	-0.02
JPY	-0.04	-0.02	0.04	0.25	JPY	0.05	0.00	NZGB 3 1/2 04/14/33	3.16	-0.03	15 year	3.36	-0.02
CAD	1.00	1.17	1.87	2.25	CAD	1.87	0.00	NZGB 2 3/4 04/15/37	3.37	-0.03			

* 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 07:07

Source: Bloomberg

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