

14 September 2017

Events Round-Up

NZ: Food prices (m/m%), Aug: 0.6 vs. -0.2 exp.
 AU: Westpac consumer confid., Sep: 97.9 vs. 95.5 prev.
 UK: Unemployment rate (%), Jul: 4.3 vs. 4.4 exp.
 UK: Avg weekly earnings (y/y%), Jul: 2.1 vs. 2.3 exp.
 EC: Industrial production (m/m%), Jul: 0.1 vs. 0.1 exp.
 US: PPI final demand (m/m%), Aug: 0.2 vs. 0.3 exp.
 US: PPI ex food and energy (m/m%), Aug: 0.1 vs. 0.2 exp.

Good Morning

The key theme overnight is the USD recovery continuing, helped by some momentum on tax reform while UST yields have nudged higher.

Currency markets were largely tracking sideways until a report came through that Republicans have laid out a plan for fast tracking tax reform, with Brady (Chair of the House Ways and Means Committee) saying "We will release a consensus document with the core elements of big, bold tax reform", with more details during the last week of September. With Trump meeting members on both sides of the house, the aim will be to get some bipartisan support to increase the probability of its success.

That news has boosted the USD, with the major currency TWI up 0.5%, extending its recovery to three days after the prior seven-day losing streak. It's a healthy sign for the USD although it's too early to celebrate its possible turnaround. PPI data came in slightly softer than expected, ahead of tonight's more important CPI release. After disappointing for five months in a row, the consensus is expecting a modest increase and if that doesn't happen we might all but rule out a possible Fed hike in December and the USD could come under renewed downward pressure.

In other economic news, the UK unemployment rate fell to a 42-year low of 4.3% but wage growth remained anaemic, coming in slightly below expectations and not keeping pace with CPI inflation. The lack of real income growth muddies the waters for the BoE which meets tonight, and this should moderate how hawkish the Bank is, as it weighs up high CPI inflation against a softer economic backdrop. GBP was weaker after the result but for the day overall the movement has been in line with EUR. EUR and GBP are both down around 0.6-0.7% to 1.1880 and 1.3200 respectively, with the stronger USD in the driving seat.

The NZD is down 0.7% to 0.7235, driven by USD strength and there is nothing more to say other than the currency seems to be well contained within a range of around 0.7150-0.73. Of the commodity currencies, AUD and CAD have done slightly better, with the AUD down 0.4% to 0.7985 and CAD holding its ground around 1.22. The CAD has been supported as oil prices have been boosted by reports from the IEA and OPEC that forecast stronger demand. This follows reports yesterday that OPEC is discussing an extension of its curb on production by at least another three months. Brent crude is up 1½% through \$55, its highest level since April.

For US bonds, traders have put more weight on the reports of tax reform than another soft inflation indicator. The 10-year rate is up 2bps for the day to 2.19% and about 3bps higher relative to the NZ close. The sell-off over the past few days has now fully unwound the early September rally and tonight's CPI release will be a key factor in whether rates can push on higher, closer towards a fairer level on fundamentals, or not.

The local rates curve was slightly higher and steeper yesterday, driven by global forces, with the 2-year swap rate up 2bps to 2.17% and the 10-year rate up 4bps to 3.10%.

The economic calendar over the next 24 hours is full. Apart from the US CPI report and BoE meeting already mentioned, Australian employment data and China activity data will be closely watched.

jason.k.wong@bnz.co.nz

Coming Up

	Period	Cons.	Prev.	NZT
NZ ANZ consumer confidence	Sep		126.2	13:00
AU Employment change ('000)	Aug	20.0	27.9	13:30
AU Unemployment rate (%)	Aug	5.6	5.6	13:30
CH Retail sales (y/y%)	Aug	10.5	10.4	14:00
CH Fixed assets (y/y%)	Aug	8.2	8.3	14:00
CH Industrial production (y/y%)	Aug	6.6	6.4	14:00
NZ NZ plans to sell \$100m 2040 I/L bonds				14:05
UK Retail sales ex auto, fuel (m/m%)	Aug	0.1	0.5	20:30
UK Bank of England Bank Rate (%)	Sep	0.25	0.25	23:00
US CPI (m/m%)	Aug	0.3	0.1	00:30
US CPI ex food and energy (m/m%)	Aug	0.2	0.1	00:30
US CPI (y/y%)	Aug	1.8	1.7	00:30
US CPI ex food and energy (y/y%)	Aug	1.6	1.7	00:30

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	0.7232	-0.8	0.7220	0.7304	CHF	0.9654	+0.5		S&P 500	2,496	-0.0	17.3	Oil (Brent)	55.12	+1.6
AUD	0.7981	-0.5	0.7971	0.8044	SEK	8.048	+1.0		Dow	22,139	+0.1	22.5	Oil (WTI)	49.28	+2.2
EUR	1.1881	-0.7	1.1880	1.1995	NOK	7.900	+0.8		Nasdaq	6,456	+0.0	25.2	Gold	1323.2	-0.4
GBP	1.3199	-0.6	1.3185	1.3329	HKD	7.813	+0.0		Stoxx 50	3,523	+0.3	18.4	HRC steel	633.0	-0.8
JPY	110.60	+0.4	109.91	110.69	CNY	6.542	+0.1		FTSE	7,380	-0.3	10.7	CRB	182.9	+0.8
CAD	1.2202	+0.1			SGD	1.351	+0.2		DAX	12,554	+0.2	20.9	Wheat Chic.	443.3	+0.3
NZD/AUD	0.9062	-0.3			IDR	13,201	+0.0		CAC 40	5,218	+0.1	18.9	Sugar	14.33	+2.1
NZD/EUR	0.6087	-0.1			THB	33.13	+0.0		Nikkei	19,866	+0.5	19.6	Cotton	69.98	-1.0
NZD/GBP	0.5479	-0.1			KRW	1,128	-0.0		Shanghai	3,384	+0.1	12.7	Coffee	137.9	+2.1
NZD/JPY	79.99	-0.4			TWD	30.06	+0.1		ASX 200	5,744	-0.0	9.9	WM powder	3085.0	-0.5
NZ TWI	75.69	-0.5			PHP	50.98	+0.1		NZX 50	7,827	-0.2	8.6	Australian Futures		
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	1.32	1.59	2.15	USD	2.19	0.02	NZGB 3 04/15/20	2.01	0.01	1 year	2.02	0.01		
AUD	1.50	1.73	1.97	2.86	AUD	2.67	0.03	NZGB 6 05/15/21	2.14	0.01	2 year	2.17	0.02		
NZD	1.75	1.94	2.17	3.10	NZD	2.84	0.04	NZGB 5 1/2 04/15/23	2.44	0.02	5 year	2.61	0.03		
EUR	0.00	0.06	-0.19	0.84	GER	0.40	0.00	NZGB 2 3/4 04/15/25	2.71	0.03	7 year	2.85	0.03		
GBP	0.25	0.29	0.64	1.23	GBP	1.15	0.01	NZGB 4 1/2 04/15/27	2.84	0.04	10 year	3.10	0.04		
JPY	-0.06	-0.03	0.03	0.23	JPY	0.03	0.01	NZGB 3 1/2 04/14/33	3.19	0.04	15 year	3.36	0.04		
CAD	1.00	1.17	1.91	2.34	CAD	2.07	0.02	NZGB 2 3/4 04/15/37	3.42	0.04					

* 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 06:48

Source: Bloomberg

Contact Details

New Zealand	Jason Wong	Senior Markets Strategist	+(64 4) 924 7652
Australia	Ray Attrill	Head of FX Strategy	+(61 2) 9237 1848
	Rodrigo Catril	Currency Strategist	+(61 2) 9237 7109
London	Gavin Friend	Senior Markets Strategist	+(44 0) 20 7710 0898

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