

15 November 2017



Events Round-Up

AU: NAB Business Conditions, Oct: 21 vs 14 prev.
CH: Retail Sales YoY, Oct: 10.0 vs 10.5 exp.
CH: Fixed Assets Ex Rural YTD YoY, Oct: 7.3 vs 7.3 exp.
CH: Industrial Production YoY, Oct: 6.2 vs 6.3 exp.
GE: GDP SA QoQ, 3QP: 0.8 vs 0.6 exp.
GE: ZEW Survey Expectations, Nov: 18.7 vs 19.5 exp.
US: Fed's Evans Speaks at ECB Conference
UK: CPI MoM, Oct: 0.1 vs 0.2 exp.
UK: CPI Core YoY, Oct: 2.7 vs 2.8 exp.
EC: Industrial Production SA MoM, Sep: -0.6 vs -0.6 exp.
EC: GDP SA QoQ, 3Q P: 0.6 vs 0.6 exp.
US: Yellen on ECB Panel with Draghi, Kuroda, and Carney
US: NFIB Sm. Business Optimism, Oct: 103.8 vs 104 exp.
US: Fed's Bullard Speaks on U.S. Economy in Louisville
US: PPI Final Demand MoM, Oct: 0.4 vs 0.1 exp.
US: PPI Ex Food and Energy MoM, Oct: 0.4 vs 0.2 exp.

Good Morning

Equity markets are generally lower, led by energy stocks as oil prices fell. US yields are flat to lower, while the EUR is higher.

It was real economy indicators that generated market movement overnight. German GDP rose 0.8% in Q3 coming in stronger than market expectations. It was enough to put a rocket under the EUR, later supported by EU GDP matching priors of 0.6%. From around 1.1670 before the German data, EUR/USD got a one-way ticket higher punching up towards 1.1800 and extending its positive streak to five days. GBP was dragged higher, with GBP/USD up about 0.4% currently sitting close to 1.3170.

Reflecting EUR strength, US dollar indices retreated. US data did nothing to halt the slide. NFIB small business optimism did rise in October, but not as much as expected and ultimately a disappointing bounce post the hurricane impact. US PPI inflation did print higher than expected even after excluding food and energy components, but only met expectations after excluding other volatile components. The DXY Index is down 0.6%. USD/JPY is marginally lower at around 113.40, after trading a circa 113.30 to 113.90 range.

NZD is generally lower, although it pared some losses through the night. NZD/USD fell to just below 0.6850 before turning around shortly after the better European data. NZD/USD opens this morning about 0.2% below this time yesterday at around 0.6880. EUR strength sees NZD/EUR down around 1.3% and is currently around its lows, close to 0.5840.

NZD/AUD came under downwards pressure yesterday afternoon, following the NAB business survey showing AU business conditions at their highest level since the survey started in 1997. From around 0.9055 pre data, NZD/AUD hit a low just under 0.8980 early yesterday evening before recovering. The cross opens this morning around 0.9020, down around 0.2% on this time yesterday. Positioning does not favour further NZD/AUD weakness, with latest IMM data showing the speculative market net short NZD and net long AUD.

Despite the strong business conditions result, AUD/USD still looks vulnerable near its recent lows, currently sitting around 0.7630. Yesterday's push up towards 0.7650 was capped when Chinese activity data generally printed a bit under expectations. Commodity prices were again mixed overnight, with oil prices losing around 2%, metals generally lower, while iron ore rose 1.6%.

The ECB's panel discussion consisting of Yellen, Draghi, Kuroda and Carney made for plenty of headlines supporting forward guidance as a policy tool but delivered little in the way of, well, forward guidance, on the policy outlook. Interestingly, Yellen did express some frustration over her colleagues public comments ahead of FOMC meetings. 'From a communication standpoint it is challenging because individual members of the committee are able to give lots of speeches'. This is interesting in the context of the RBNZ movement towards a committee based model, possibly with external members. It is also interesting in the context that Fed chair nominee Jerome Powell as previously expressed shortcomings in the Fed's communication, including the use of the interest rate 'dot plot'. Watch for more discussion on this next year.

US 10-year Treasury yields again tested above 2.40% yesterday, but could not sustain the move. Yields again tried to push upwards on the higher headline US PPI data, but pulled back as the details were digested, and as oil prices fell, to currently sit round 2.375%. Meanwhile, US 2-year Treasury yields have held their recent gains seeing further flattening of the US curve.

The Fed's Bullard (non-voter this year) overnight reiterated

he sees no need to raise interest rates. Meanwhile, yesterday the Fed's Harker had a December hike 'lightly pencilled in'. There's the communication challenge. A lot of focus will be on the US CPI data overnight. We think the Fed will hike in December, with the CPI data likely having more influence on what follows next year. Some attention will be given to AU wage data in the local time zone.

The local rates market was little changed yesterday, with swap yields marginally lower and bond yields marginally higher. NZ 2-year swap closed slightly lower at 2.195% while NZ 5-year swap was unchanged at 2.71%.

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Coming Up

	Period	Cons.	Prev.	NZT
AU Westpac Consumer Conf Index	Nov		101.4	12:30
JN GDP SA QoQ	3Q P	0.4	0.6	12:50
AU Wage Price Index QoQ	3Q	0.7	0.5	13:30
US Fed's Evans Speaks at European Conference in London				21:00
UK ILO Unemployment Rate 3Mths	Sep	4.3	4.3	22:30
US CPI MoM	Oct	0.1	0.5	02:30
US CPI Ex Food and Energy MoM	Oct	0.2	0.1	02:30
US CPI Ex Food and Energy YoY	Oct	1.7	1.7	02:30
US Retail Sales Advance MoM	Oct	0	1.6	02:30
US Retail Sales Ex Auto and Gas	Oct	0.3	0.5	02:30

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	0.6884	-0.3	0.6845	0.6888	CHF	0.9902	-0.7	S&P 500	2,578	-0.4	19.1	Oil (Brent)	61.95	-1.6	
AUD	0.7633	+0.1	0.7613	0.7650	SEK	8.407	+0.1	Dow	23,398	-0.3	24.0	Oil (WTI)	55.59	-1.8	
EUR	1.1798	+1.1	1.1665	1.1775	NOK	8.194	+0.2	Nasdaq	6,732	-0.5	29.0	Gold	1279.1	+0.3	
GBP	1.3173	+0.4	1.3075	1.3154	HKD	7.803	+0.0	Stoxx 50	3,556	-0.5	17.0	HRC steel	606.0	-0.5	
JPY	113.37	-0.2	113.31	113.91	CNY	6.636	-0.1	FTSE	7,414	-0.0	9.8	CRB	188.8	-1.3	
CAD	1.2730	-0.0			SGD	1.359	-0.2	DAX	13,033	-0.3	21.9	Wheat Chic.	443.8	+0.3	
NZD/AUD	0.9019	-0.4			IDR	13,551	-0.0	CAC 40	5,316	-0.2	17.9	Sugar	15.08	-0.2	
NZD/EUR	0.5835	-1.4			THB	33.06	-0.1	Nikkei	22,380	-0.0	26.7	Cotton	68.81	-0.2	
NZD/GBP	0.5226	-0.7			KRW	1,118	-0.2	Shanghai	3,430	-0.5	6.9	Coffee	129.6	-0.1	
NZD/JPY	78.04	-0.5			TWD	30.18	-0.0	ASX 200	5,969	-0.9	12.1	WM powder	2875.0	+1.2	
NZD/CAD	0.8763	-0.3			PHP	51.24	+0.1	NZX 50	8,008	+0.4	18.3	Australian Futures			
NZ TWI	73.16	-0.5											3 year bond	98	-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				
USD	1.25	1.42	1.88	2.36	USD	2.38	-0.03	NZGB 3 04/15/20	2.04	0.01	1 year	2.01	-0.01		
AUD	1.50	1.71	1.93	2.82	AUD	2.66	0.03	NZGB 6 05/15/21	2.20	0.01	2 year	2.20	-0.01		
NZD	1.75	1.92	2.19	3.22	NZD	2.94	0.00	NZGB 5 1/2 04/15/23	2.49	0.01	5 year	2.71	-0.00		
EUR	0.00	0.06	-0.20	0.86	GER	0.40	-0.02	NZGB 2 3/4 04/15/25	2.76	0.01	7 year	2.96	-0.01		
GBP	0.50	0.53	0.82	1.36	GBP	1.32	-0.01	NZGB 4 1/2 04/15/27	2.94	0.00	10 year	3.22	-0.01		
JPY	-0.05	-0.04	0.03	0.24	JPY	0.05	0.00	NZGB 3 1/2 04/14/33	3.30	0.00	15 year	3.46	-0.01		
CAD	1.00	1.17	1.79	2.29	CAD	1.95	-0.02	NZGB 2 3/4 04/15/37	3.51	0.01					

* 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 07:36

Source: Bloomberg

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