

15 September 2017

## Events Round-Up

NZ: ANZ consumer confidence, Sep: 129.9 vs. 126.2 prev.

AU: Employment change ('000), Aug: 54.2 vs. 20.0 exp.

AU: Unemployment rate (%), Aug: 5.6 vs. 5.6 exp.

CH: Retail sales (y/y%), Aug: 10.1 vs. 10.5 exp.

CH: Fixed assets (y/y%), Aug: 7.8 vs. 8.2 exp.

CH: Industrial production (y/y%), Aug: 6.0 vs. 6.6 exp.

UK: Bank of Eng. Bank Rate (%), Sep: 0.25 vs. 0.25 exp.

US: CPI (m/m%), Aug: 0.4 vs. 0.3 exp.

US: CPI ex food and energy (m/m%), Aug: 0.2 vs. 0.2 exp.

US: CPI (y/y%), Aug: 1.9 vs. 1.8 exp.

US: CPI ex food and energy (y/y%), Aug: 1.7 vs. 1.6 exp.

## Good Morning

GBP has surged after a more hawkish than expected BoE announcement, while moves in the USD and rates have been contained despite a positive inflation report.

The biggest mover overnight was a 1.4% leap in GBP to breach the 1.34 mark while NZD/GBP is currently down 1.8% to 0.5385, a 4-month low. As expected, the BoE voted 7-2 to keep rates unchanged but the Bank indicated that some withdrawal of monetary stimulus is likely to be appropriate "over the coming months" in order to return inflation sustainably to target. If the economy proceeds as forecast then "All MPC members continue to judge that...monetary policy could need to be tightened by a somewhat greater extent over the forecast period than current market expectations."

The OIS market now shows a slightly better than even chance of a hike at the BoE's next meeting in November, with almost a full hike priced in by February. The UK 10 year rate rose by 9bps to 1.23% and is now up about 25bps over the past week.

A BoE hike in November would support the theme that major central banks around the world are intent on returning policy back to more normal settings. The BoE would join the US Fed and Bank of Canada in their tightening cycles. Rate hikes for the ECB and BoJ remain a distant prospect, although the former is about to wind down its QE programme while the BoJ is buying less bonds these days to achieve its 10-year yield target, an effective tapering by default.

A Fed hike in December has been kept alive by US CPI data coming in slightly ahead of expectations, after a 5-month streak of running below expectations. The data suggest some merit in the Fed's view that the recent fall in inflation might have been temporary. But we'll need to see more data to confirm that. There is now no hurdle for the Fed to announce a starting date for the beginning of its balance sheet unwind programme. This is expected to be announced at next week's FOMC meeting, with a start date likely next month.

Apart from some volatility around the time of the release, the market reaction to the stronger US CPI release was muted. The USD TWI majors index is down 0.2% for the day, while the US 10-year rate is up by less than 1bp. The probability of the Fed hiking in December has nudged higher and, depending on which rates are used to measure it, ranges between about 40-50%.

Enthusiasm for Fed hikes has likely been dampened by more provocative talk by North Korea. The country has threatened to use a nuclear weapon against Japan and turn the U.S. into "ashes and darkness" for agreeing on fresh UN sanctions this week. The comments came amid reports that North Korea regime may be preparing another missile test.

Apart from GBP, other currency movements have been modest, but there has been some positive spillover into other European currencies, with EUR up 0.3% to 1.1920.

The NZD is the weakest performer, down 0.3% to 0.7215, not helped by the Colmar Brunton poll that showed Labour maintaining its lead over National and the party could govern with the Greens, defying the Newshub poll that showed National could govern alone, with the Greens removed from Parliament. A poll of polls continues to show that it'll be a close race.

Yesterday, the AUD was boosted by yet another strong employment report but the gloss was taken off by a series of weaker China activity indicators. Chinese retail sales, industrial production and fixed-asset investment all slowed last month, with the tightening in credit conditions possibly behind these moves. Iron ore prices fell by over 3% to \$74 and look to be trending lower after reaching the \$80 mark mid-August. The AUD has maintained its ground against the USD around 0.7990, which leaves NZD/AUD a little lower at 0.9030. USD/JPY is flat at 110.50 so NZD/JPY has slipped back below the 80 mark.

Yesterday, the local market played catch-up to the upward pressures from global rates. This saw the 2-year swap rate up 2bps to 2.19% and the 10-year rate up 6bps to 3.16%, the latter now well up from its low last week of 3.04%. The rates and currency market ignored the strong consumer confidence reading. Defying expectations, both business and consumer confidence have held up very well in the lead-up to the election, suggesting underlying strength in the economy. We don't expect REINZ house sales data this morning to show the same strength; indeed sales activity likely continues to be depressed. Tonight sees the release of US retail sales data.

[jason.k.wong@bnz.co.nz](mailto:jason.k.wong@bnz.co.nz)

Coming Up

|                                     | Period | Cons. | Prev. | NZT   |
|-------------------------------------|--------|-------|-------|-------|
| NZ REINZ house sales (y/y%)         | Aug    |       | -24.5 | 09:00 |
| NZ Manufacturing PMI                | Aug    |       | 55.4  | 10:30 |
| US Retail sales advance (m/m%)      | Aug    | 0.1   | 0.6   | 00:30 |
| US Retail sales ex auto, gas (m/m%) | Aug    | 0.3   | 0.5   | 00:30 |
| US Industrial production (m/m%)     | Aug    | 0.1   | 0.2   | 01:15 |
| US U. of Mich. cons. sentiment      | Sep P  | 95.0  | 96.8  | 02:00 |

Source: Bloomberg, BNZ

| Foreign Exchange                |        |             |        |                       |          |                     | Equities      |                     |          |        | Commodities**            |      |                           |        |      |
|---------------------------------|--------|-------------|--------|-----------------------|----------|---------------------|---------------|---------------------|----------|--------|--------------------------|------|---------------------------|--------|------|
| Indicative overnight ranges (*) |        |             |        |                       | Other FX |                     | Major Indices |                     |          |        | Price                    |      |                           |        |      |
|                                 | Last   | % Day       | Low    | High                  |          | Last                | % Day         | % Year              |          | Last   | Net Day                  |      |                           |        |      |
| NZD                             | 0.7213 | -0.4        | 0.7184 | 0.7254                | CHF      | 0.9640              | -0.0          |                     | S&P 500  | 2,496  | -0.1                     | 17.4 | Oil (Brent)               | 55.26  | +0.2 |
| AUD                             | 0.7986 | +0.0        | 0.7956 | 0.8014                | SEK      | 7.997               | -0.5          |                     | Dow      | 22,209 | +0.2                     | 23.1 | Oil (WTI)                 | 49.67  | +0.8 |
| EUR                             | 1.1915 | +0.3        | 1.1838 | 1.1922                | NOK      | 7.884               | +0.1          |                     | Nasdaq   | 6,438  | -0.3                     | 24.4 | Gold                      | 1327.5 | +0.2 |
| GBP                             | 1.3396 | +1.4        | 1.3155 | 1.3404                | HKD      | 7.813               | -0.0          |                     | Stoxx 50 | 3,526  | +0.1                     | 18.9 | HRC steel                 | 625.0  | -0.3 |
| JPY                             | 110.55 | +0.1        | 110.32 | 111.04                | CNY      | 6.556               | +0.2          |                     | FTSE     | 7,295  | -1.1                     | 9.3  | CRB                       | 183.3  | +0.2 |
| CAD                             | 1.2197 | +0.2        |        |                       | SGD      | 1.348               | -0.2          |                     | DAX      | 12,540 | -0.1                     | 20.8 | Wheat Chic.               | 443.0  | -0.1 |
| NZD/AUD                         | 0.9032 | -0.4        |        |                       | IDR      | 13,251              | +0.4          |                     | CAC 40   | 5,225  | +0.0                     | 19.6 | Sugar                     | 14.27  | -0.4 |
| NZD/EUR                         | 0.6054 | -0.6        |        |                       | THB      | 33.09               | -0.1          |                     | Nikkei   | 19,807 | -0.3                     | 20.7 | Cotton                    | 69.78  | -0.3 |
| NZD/GBP                         | 0.5384 | -1.8        |        |                       | KRW      | 1,133               | +0.4          |                     | Shanghai | 3,371  | -0.4                     | 12.3 | Coffee                    | 137.7  | -0.1 |
| NZD/JPY                         | 79.74  | -0.3        |        |                       | TWD      | 30.11               | +0.2          |                     | ASX 200  | 5,739  | -0.1                     | 9.5  | WM powder                 | 3085.0 | +0.0 |
| NZ TWI                          | 75.42  | -0.4        |        |                       | PHP      | 51.15               | +0.3          |                     | NZX 50   | 7,819  | -0.1                     | 8.7  | <b>Australian Futures</b> |        |      |
| <b>Interest Rates</b>           |        |             |        |                       |          |                     |               |                     |          |        | 3 year bond 97.9 -0.03   |      |                           |        |      |
|                                 |        |             |        |                       |          |                     |               |                     |          |        | 10 year bond 97.24 -0.07 |      |                           |        |      |
| 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   | 1.32        | 1.61   | 2.17                  | USD      | 2.20                | 0.01          | NZGB 3 04/15/20     | 2.04     | 0.02   | 1 year                   | 2.02 | 0.01                      |        |      |
| AUD                             | 1.50   | 1.72        | 2.04   | 2.93                  | AUD      | 2.73                | 0.06          | NZGB 6 05/15/21     | 2.18     | 0.04   | 2 year                   | 2.19 | 0.02                      |        |      |
| NZD                             | 1.75   | 1.94        | 2.19   | 3.16                  | NZD      | 2.92                | 0.08          | NZGB 5 1/2 04/15/23 | 2.50     | 0.04   | 5 year                   | 2.65 | 0.04                      |        |      |
| EUR                             | 0.00   | 0.06        | -0.18  | 0.86                  | GER      | 0.41                | 0.01          | NZGB 2 3/4 04/15/25 | 2.77     | 0.06   | 7 year                   | 2.90 | 0.05                      |        |      |
| GBP                             | 0.25   | 0.30        | 0.72   | 1.33                  | GBP      | 1.23                | 0.09          | NZGB 4 1/2 04/15/27 | 2.92     | 0.06   | 10 year                  | 3.16 | 0.06                      |        |      |
| JPY                             | -0.06  | -0.03       | 0.03   | 0.23                  | JPY      | 0.05                | 0.02          | NZGB 3 1/2 04/14/33 | 3.27     | 0.08   | 15 year                  | 3.42 | 0.06                      |        |      |
| CAD                             | 1.00   | 1.17        | 1.93   | 2.35                  | CAD      | 2.07                | 0.01          | NZGB 2 3/4 04/15/37 | 3.50     | 0.08   |                          |      |                           |        |      |

\* 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 06:53

Source: Bloomberg

## Contact Details

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

**ANALYST DISCLAIMER:** The person or persons named as the author(s) of this report hereby certify that the views expressed in the research report accurately reflect their personal views about the subject securities and issuers and other subject matters discussed. No part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the research report. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Markets Division of National Australia Bank Limited, a member of the National Australia Bank Group ("NAB"). The views of the author(s) do not necessarily reflect the views of NAB and are subject to change without notice. NAB may receive fees for banking services provided to an issuer of securities mentioned in this report. NAB, its affiliates and their respective officers, and employees, including persons involved in the preparation or issuance of this report (subject to the policies of NAB), may also from time to time maintain a long or short position in, or purchase or sell a position in, hold or act as advisors, brokers or commercial bankers in relation to the securities (or related securities and financial instruments), of companies mentioned in this report. NAB or its affiliates may engage in these transactions in a manner that is inconsistent with or contrary to any recommendations made in this report.

**NEW ZEALAND DISCLAIMER:** This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

**USA DISCLAIMER:** If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.

**National Australia Bank Limited is not a registered bank in New Zealand.**