

16 November 2017



Events Round-Up

NZ: REINZ house sales (y/y%), Oct: -15.8 vs. -26.2 prev.
AU: Westpac consumer conf, Nov: 99.7 vs. 101.4 prev.
JN: GDP (q/q%), Q3: 0.3 vs. 0.4 exp.
AU: Wage price index (q/q%), Q3: 0.5 vs. 0.7 exp.
UK: Unemployment rate (%), Sep: 4.3 vs. 4.3 exp.
US: CPI (m/m%), Oct: 0.1 vs. 0.1 exp.
US: CPI ex food and energy (m/m%), Oct: 0.2 vs. 0.2 exp.
US: CPI ex food and energy (y/y%), Oct: 1.8 vs. 1.7 exp.
US: Retail sales advance (m/m%), Oct: 0.2 vs. 0.0 exp.
US: Retail Sales ex auto and gas, Oct: 0.1 vs. 0.2 exp.

Good Morning

A risk-off tone remains evident which sees lower equity markets and bond rates but the NZD has remained steady overnight, after a round-trip in the USD.

Our risk appetite index has slipped to 72% to a three-month low, after being as high as 83% at the beginning of the month. The MSCI world index is on track to post its fifth daily decline in a row and the same can be said for Bloomberg's commodity price index. Triggers for the move include a sense that equity markets have been well overdue for a correction after their strong run and China's focus on quality rather than quantity of growth that might see reduced demand for commodities. Oil prices have fallen over the past few days, after the strong run-up before and after the increased political risk in Saudi Arabia, with higher inventory levels supporting a reversal of trend.

Despite the risk-off tone, the NZD has managed to steady itself and sits this morning around 0.6875, flat compared to the level this time yesterday and the 5pm local close. The flat point to point reading hides the round-trip we saw in the USD. The USD saw some broadly based downward pressure last evening which saw the NZD climb towards the 0.6920 mark, until some positive US data saw a reversal of that price action.

The much anticipated US core CPI was marginally ahead of expectations, with the 0.2% m/m gain in line but the annual increase of 1.8% slightly ahead. It was a welcome relief after the CPI has tended to come in below expectations over the last six months or so. The data came alongside slightly better retail sales data for October

(including upward revisions). The data all but sealed the likelihood of a December rate hike from the Fed.

The risk-off tone saw the US 10-year rate fall a few basis points to a low of 2.32%, before the CPI and retail sales data helped see rates back up to 2.34%. There has been a further flattening of the yield curve, with the 2s10s spread down to a fresh low of 65bps as the 2-year rate has remained flat at 1.69%.

The round-trip in the USD saw EUR/USD rise from 1.1790 up to 1.1860 before reversing back down to a sub 1.18 level. NZD/EUR has spent much of the past 24 hours hovering around the 0.5825 mark.

The AUD collapsed from 0.7630 to 0.7580 after softer than expected wage data, with the rise in the minimum wage seemingly washed out by generally soft wage inflation. The data supports the RBA's stance of keeping rates steady and adds to the move over the past month of the market pricing out the chance of the RBA tightening policy any time soon. After a brief recovery induced by the (temporary) USD selloff, the currency is back down to that level, making it the worst performing of the key majors we follow. NZD/AUD clawed back the losses seen over the previous day and after peaking at 0.9100 overnight it currently sits at 0.9070.

There's not much to say on the other crosses, with current levels not far from the 5pm close. GBP fell after employment data came in weaker than expected, but wages and the unemployment rate were in line and the price action soon reversed. NZD/GBP is down slightly at 0.5220.

Lower US and Australian rates put downward pressure on NZ's yield curve yesterday, seeing the 2-year swap rate down 2bps to 2.17% and the 10-year rate down 4bps to 3.18%. The 90-day bank bill rate fell to 1.91%, a fresh low for the cycle as banks are flush with cash at the moment, being well ahead of funding targets against a backdrop of soft-ish credit demand. These conditions are likely to persist over the short term and will likely keep the short end of the yield curve underpinned.

In the day ahead we get the first clean reading of NZ consumer confidence since the new government was formed and we'd expect the data to show a fall. Australian employment data always provide the opportunity for some AUD volatility, while tonight sees some second-tier US data, which shouldn't provoke much market reaction.

jason.k.wong@bnz.co.nz

Coming Up

	Period	Cons.	Prev.	NZT
NZ ANZ consumer confidence index	Nov		126.3	13:00
AU Employment change ('000)	Oct	18.8	19.8	13:30
AU Unemployment rate (%)	Oct	5.5	5.5	13:30
UK Retail sales ex auto fuel (m/m%)	Oct	0.0	-0.7	22:30
US Philadelphia Fed business outlook	Nov	24.1	27.9	02:30
US Fed's Mester delivers keynote address at Cato conf.				03:10
US Industrial production (m/m%)	Oct	0.5	0.3	03:15
US NAHB housing market index	Nov	67	68	04:00
US Fed's Kaplan speaks in Houston				07:10

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	0.6872	-0.1	0.6862	0.6919	CHF	0.9887	-0.1		S&P 500	2,570	-0.3	17.9	Oil (Brent)	61.93	-0.5
AUD	0.7581	-0.7	0.7573	0.7620	SEK	8.427	+0.4		Dow	23,323	-0.4	23.3	Oil (WTI)	55.33	-0.7
EUR	1.1798	+0.0	1.1785	1.1861	NOK	8.242	+0.7		Nasdaq	6,716	-0.3	27.3	Gold	1277.9	-0.4
GBP	1.3175	+0.1	1.3134	1.3214	HKD	7.808	+0.1		Stoxx 50	3,546	-0.3	16.3	HRC steel	606.0	+0.0
JPY	113.09	-0.3	112.48	113.28	CNY	6.624	-0.2		FTSE	7,373	-0.6	8.5	CRB	188.5	-0.3
CAD	1.2785	+0.4			SGD	1.358	-0.1		DAX	12,976	-0.4	20.9	Wheat Chic.	435.8	-2.1
NZD/AUD	0.9065	+0.6			IDR	13,535	-0.1		CAC 40	5,301	-1.5	16.9	Sugar	15.06	-0.2
NZD/EUR	0.5825	-0.1			THB	33.01	-0.1		Nikkei	22,028	-1.6	23.3	Cotton	68.69	+0.1
NZD/GBP	0.5216	-0.1			KRW	1,112	-0.5		Shanghai	3,403	-0.8	6.2	Coffee	129.6	-0.7
NZD/JPY	77.72	-0.4			TWD	30.15	-0.1		ASX 200	5,934	-0.6	11.4	W/M powder	2875.0	+1.2
NZD/CAD	0.8786	+0.4			PHP	50.96	-0.5		NZX 50	8,000	-0.1	17.2	Australian Futures		
NZ TWI	73.07	-0.0											3 year bond	98.05	0.04
													10 year bond	97.41	0.06

Interest Rates						
	Rates		Swap Yields		Benchmark 10 Yr Bonds	
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day
USD	1.25	1.42	1.87	2.33	USD	2.34 -0.03
AUD	1.50	1.71	1.89	2.77	AUD	2.59 -0.07
NZD	1.75	1.91	2.19	3.18	NZD	2.88 -0.06
EUR	0.00	0.06	-0.20	0.84	GER	0.38 -0.02
GBP	0.50	0.53	0.81	1.34	GBP	1.29 -0.04
JPY	-0.05	-0.04	0.03	0.24	JPY	0.05 -0.00
CAD	1.00	1.17	1.78	2.25	CAD	1.92 -0.04

NZ Government Bonds				NZ Swap Yields		
	Last				Last	
NZGB 3 04/15/20	2.01	-0.03		1 year	2.01	-0.01
NZGB 6 05/15/21	2.16	-0.03		2 year	2.17	-0.02
NZGB 5 1/2 04/15/23	2.46	-0.04		5 year	2.68	-0.03
NZGB 2 3/4 04/15/25	2.72	-0.04		7 year	2.93	-0.03
NZGB 4 1/2 04/15/27	2.88	-0.06		10 year	3.18	-0.04
NZGB 3 1/2 04/14/33	3.25	-0.05		15 year	3.42	-0.04
NZGB 2 3/4 04/15/37	3.45	-0.06				

* 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 06:54

Source: Bloomberg

Contact Details

Jason Wong

Senior Markets Strategist
+64 4 924 7652

National Australia Bank

Ray Attrill

Head of FX Strategy
+61 2 9237 1848

Rodrigo Catril

Currency Strategist
+61 2 9293 7109

Gavin Friend

Senior Markets Strategist
+44 20 7710 2155

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