

16 October 2017

## Events Round-Up

NZ: Manufacturing PMI, Sep: 57.5 vs. 57.9 prev.  
CH: Trade balance (\$b), Sep: 28.5 vs. 38.0 exp.  
US: CPI (m/m%), Sep: 0.5 vs. 0.6 exp.  
US: CPI ex food, energy (m/m%), Sep: 0.1 vs. 0.2 exp.  
US: CPI ex food, energy (y/y%), Sep: 1.7 vs. 1.8 exp.  
US: Retail sales (m/m%), Sep: 1.6 vs. 1.7 exp.  
US: Retail sales ex auto, gas (m/m%), Sep: 0.5 vs. 0.4 exp.  
US: U. of Mich. cons. sent, Oct: 101.1 vs. 95.0 exp  
CH: Aggreg. financing (CNYbn), Sep: 1820 vs. 1573 exp.

## Good Morning

The NZD and AUD ended the week on a strong note, after US CPI inflation came in weaker than expected, which did no favours to the USD, while UST yields fell. Meanwhile US and global equities (MSCI index) reached an all-time high, while the WSJ noted how equities benchmarks in Germany, UK, Japan, Hong Kong, Taiwan and New Zealand all reached multiyear or record highs this week.

On Friday the key focus for the market was US CPI data, which came in softer than expected, with the core CPI rising by just 0.1%, a rate it has achieved for 5 of the past 6 months. The soft run lends support to the view that structural, rather than temporary forces might be holding back inflation. US rates fell across the curve after the result, taking the 10-year Treasury rate down 6bps from 2.33% to 2.27% at the close and the 2-year rate down a more modest 3bps to 1.49%. The pricing of a rate hike for December fell nudged down from a 77% chance to a 73% chance on Bloomberg calculations.

Speaking after the release, the Fed's Evans said that the data "didn't seem encouraging". The Fed's Kaplan ran the party line that the Fed should be patient and gradual in removing accommodation, but he added that it may be wise to take another step in removing stimulus, given policy would still remain accommodative.

Speaking yesterday, Chair Yellen repeated her previous message that Fed officials "will be paying close attention to the inflation data in the months ahead" and her best guess is that "these soft readings will not persist, and with the ongoing strengthening of labour markets, I expect inflation to move higher next year". She added that "most of my colleagues agree".

Other US data on Friday showed retail sales were broadly as strong as expected, while US consumer sentiment rose to its highest level since 2004.

The USD fell after the CPI release but crawled its way back up so that it was relatively flat for the day. Helping that result was an out-of-favour EUR. Earlier in the session, Bloomberg reported that according to unnamed ECB officials, the ECB was considering reducing quantitative easing to €30bn a month next year from the current pace of €60bn. While that would not be a surprise, the Governing Council was said likely to pledge to keep buying bonds until September 2018 – with the proviso that it could be extended if needed. This was seen to be dovish and later in the day adding to that sentiment, ECB President Draghi said that the ECB's promise that interest rates will remain low "well past" bond-buying is "very, very important."

EUR closed the week around 1.1820, after reaching as high as 1.1875 immediately after the US CPI release. Germany's 10-year rate fell after the Bloomberg report and lower UST yields gave them another nudge down, taking them 4bps down for the day to 0.40%.

The NZD closed the week on a strong note, nearly breaking through 0.72 and closing up 0.8% to 0.7180. The AUD performed similarly, nearly breaking through 0.79 and closing up 0.9% to 0.7890, leaving NZD/AUD slightly softer at 0.91. Both currencies seemed to benefit from the shift out of the USD and EUR, while the lower yield environment also supported JPY, with USD/JPY down 0.4% to 111.80.

As the new week begins, event risk overhangs the NZD. An announcement on a new coalition government could come at any time from late today, with a likely knee-jerk reaction for the NZD. Our working assumption continues to be that any NZD impact is likely to be transitory, with bigger global forces more important than local political forces. The NZD and AUD might get some support today from some weekend news. On Saturday, PBoC Governor Zhou Xiaochuan said that China GDP growth "may continue in the second half" at the current run rate of 6.9%. This followed data showing stronger than expected credit growth, suggesting easy access to credit even as the government tries to curb excessive borrowing. A strong Chinese economy is supportive for the commodity price environment and the commodity currencies.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ Performance Services Index	Sep		57.3	10:30
CH CPI YoY	Sep	1.6	1.8	14:30
CH PPI YoY	Sep	6.4	6.3	14:30

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	0.7178	+0.8	0.7128	0.7197	CHF	0.9745	-0.1	S&P 500	2,553	+0.1	19.7	Oil (Brent)	57.17	+1.6
AUD	0.7890	+0.9	0.7825	0.7897	SEK	8.107	-0.2	Dow	22,872	+0.1	26.1	Oil (WTI)	51.45	+1.7
EUR	1.1820	-0.1	1.1806	1.1875	NOK	7.888	-0.2	Nasdaq	6,606	+0.2	26.7	Gold	1301.5	+0.6
GBP	1.3285	+0.2	1.3248	1.3338	HKD	7.807	-0.0	Stoxx 50	3,605	-0.0	19.2	HRC steel	595.0	+0.0
JPY	111.82	-0.4	111.69	112.27	CNY	6.580	-0.1	FTSE	7,535	-0.3	7.4	CRB	184.8	+0.8
CAD	1.2468	-0.1			SGD	1.349	-0.2	DAX	12,992	+0.1	22.8	Wheat Chic.	458.0	+1.9
NZD/AUD	0.9098	-0.2			IDR	13,498	-0.0	CAC 40	5,352	+0.0	19.7	Sugar	14.41	+0.9
NZD/EUR	0.6073	+0.8			THB	33.06	-0.2	Nikkei	21,155	+1.0	25.5	Cotton	68.62	+1.1
NZD/GBP	0.5403	+0.5			KRW	1,129	-0.4	Shanghai	3,391	+0.1	10.7	Coffee	126.5	+0.1
NZD/JPY	80.26	+0.4			TWD	30.14	-0.2	ASX 200	5,814	+0.3	7.0	WM powder	3065.0	+0.2
NZD/CAD	0.8950	+0.6			PHP	51.41	+0.0	NZX 50	8,089	+0.3	13.4	<b>Australian Futures</b>		
NZ TWI	75.67	+0.5										3 year bond	97.87	0.02
												10 year bond	97.20	0.01
<b>Interest Rates</b>														
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	1.36	1.75	2.24	USD	2.27	-0.04	NZGB 3 04/15/20	2.06	-0.01	1 year	2.03	0.00	
AUD	1.50	1.70	1.99	2.92	AUD	2.79	-0.01	NZGB 6 05/15/21	2.22	-0.01	2 year	2.20	0.00	
NZD	1.75	1.93	2.20	3.24	NZD	2.96	-0.02	NZGB 5 1/2 04/15/23	2.52	-0.01	5 year	2.72	0.00	
EUR	0.00	0.06	-0.18	0.86	GER	0.40	-0.04	NZGB 2 3/4 04/15/25	2.80	-0.02	7 year	2.98	-0.00	
GBP	0.25	0.37	0.83	1.39	GBP	1.37	-0.01	NZGB 4 1/2 04/15/27	2.96	-0.02	10 year	3.24	-0.00	
JPY	-0.02	-0.04	0.04	0.25	JPY	0.06	-0.00	NZGB 3 1/2 04/14/33	3.30	-0.02	15 year	3.48	-0.00	
CAD	1.00	1.17	1.89	2.32	CAD	2.04	-0.04	NZGB 2 3/4 04/15/37	3.51	-0.02				

\* 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: NY close Sat morning

Source: Bloomberg

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