

17 November 2017



Events Round-Up

NZ: ANZ consumer confidence, Nov: 123.7 vs. 126.3 prev.

AU: Employment change ('000), Oct: 3.7 vs. 18.8 exp.

AU: Unemployment rate (%), Oct: 5.4 vs. 5.5 exp.

UK: Retail sales ex auto fuel (m/m%), Oct: 0.1 vs. 0.0 exp.

US: Philadelphia Fed bus. outlook, Nov: 22.7 vs. 24.6 exp.

US: Industrial production (m/m%), Oct: 0.9 vs. 0.5 exp.

US: NAHB housing market index, Nov: 70 vs. 67 exp.

Good Morning

Bear market risk averted. After five consecutive daily falls in the MSCI World Index, the obituaries were starting to be written for the bull market in equities. They can be safely tucked away for another day as there's been a broadly based rebound, across Europe (+0.8%), Japan (+1.5%) and the US (+0.8% so far). Keep buying the dips seems to be the underlying message from investors.

There's been no real trigger for the reversal. Perhaps the thought of making guaranteed low returns or negative real returns in alternatives like the bond market didn't seem that appealing after all. In the US as the earnings season draws to a close, a strong result from Walmart as it moves into e-commerce got the market's attention. US industrial production and the NAHB's housing market sentiment index both beat market expectations, showing rebounds after the hurricanes depressed prior readings.

Better risk appetite sees the VIX index back below 12, after recently testing a 3-month high. US Treasury rates are 2-3bps higher across the curve, with the 10-year rate up to 2.35%. German's 10 year rate remains flat at 0.37%, which is reducing the scope of US yields to shift higher, with the US-German spread remaining stretched enough.

A lack of interesting news sees currency volatility depressed, with little price action overall. The NZD sits this morning around 0.6860 after testing the strong support area of 0.6820-0.6840 and rebounding from the overnight low of 0.6836.

Australia's labour market report had little sustained impact on the market. While employment was soft, the unemployment rate fell to 5.4%, a 4-year low. Forward

indicators point to a further tightening of the labour market, but until wage inflation shows signs of life, the RBA is likely to remain on the sidelines. The AUD remained tightly range-bound over the day and sits at 0.7590. NZD/AUD slipped after the report and has maintained those losses, sitting around 0.9030.

There were a number of ECB speakers overnight but the market ignored them so I won't bore you with the details. The most interesting comment came from Executive Board member Mersch who said that "I do not expect that the market would be right to anticipate a further increase in our asset purchases at the end of our programme", seemingly hosing down the view that QE remained open-ended despite next year's tapering. EUR has been range-bound and sits slightly lower at 1.1775, with NZD/EUR steady at 0.5825. Despite the significant fall in NZD/EUR this year we still think that further depreciation is likely through the next 6-9 months. If the ECB keeps suppressing rates then the release valve for the strongly growing euro-area will be a stronger EUR.

The NZ local rates market was dead yesterday, as the market's attention was more focused on the annual RBNZ markets' function and the All Whites World Cup qualifier against Peru. The 2-year swap rate was flat at 2.17% and the 10-year rate fell by 3bps to 3.16%, with global forces in the driving seat.

In the day ahead, it'll be interesting to see the BNZ Manufacturing PMI, the first clean read since the formation of government. But overall the day ahead should be quiet, with second-tier housing market data in the US. ECB President Draghi speaks tonight but if the market's lack of interest in ECB speakers last night is anything to go by, then expectations for a market moving soundbite are low.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ Manufacturing PMI	Oct		57.5	10:30
NZ PPI output (q/q%)	Q3		1.3	10:45
US Fed's Williams Speaks at Asia Economic Policy Conf.				10:45
EC ECB's Draghi Speaks in Frankfurt				21:30
US Housing starts ('000)	Oct	1190	1127	02:30
US Building permits ('000)	Oct	1250	1215	02:30

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	0.6856	-0.3	0.6836	0.6868	CHF	0.9924	+0.4		S&P 500	2,586	+0.8	18.8	
AUD	0.7593	+0.1	0.7581	0.7602	SEK	8.403	-0.3		Dow	23,470	+0.9	24.4	
EUR	1.1776	-0.1	1.1757	1.1801	NOK	8.216	-0.3		Nasdaq	6,798	+1.4	28.4	
GBP	1.3194	+0.2	1.3135	1.3208	HKD	7.810	+0.0		Stoxx 50	3,565	+0.5	17.8	
JPY	112.83	-0.0	112.74	113.33	CNY	6.630	+0.1		FTSE	7,387	+0.2	9.4	
CAD	1.2739	-0.2			SGD	1.356	-0.1		DAX	13,047	+0.5	22.3	
NZD/AUD	0.9029	-0.4			IDR	13,539	+0.0		CAC 40	5,336	+0.6	18.6	
NZD/EUR	0.5822	-0.2			THB	32.92	-0.3		Nikkei	22,351	+1.5	25.1	
NZD/GBP	0.5196	-0.5			KRW	1,101	-1.0		Shanghai	3,399	-0.1	5.9	
NZD/JPY	77.36	-0.3			TWD	30.11	-0.1		ASX 200	5,944	+0.2	11.3	
NZD/CAD	0.8734	-0.5			PHP	50.77	-0.4		NZX 50	8,035	+0.4	17.9	
NZ TWI	72.83	-0.3											

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	1.42	1.89	2.34	USD	2.35	0.03	NZGB 3 04/15/20	1.99	-0.02
AUD	1.50	1.72	1.90	2.78	AUD	2.58	-0.01	NZGB 6 05/15/21	2.14	-0.03
NZD	1.75	1.92	2.17	3.16	NZD	2.85	-0.04	NZGB 5 1/2 04/15/23	2.43	-0.03
EUR	0.00	0.06	-0.19	0.84	GER	0.38	0.00	NZGB 2 3/4 04/15/25	2.68	-0.03
GBP	0.50	0.53	0.83	1.35	GBP	1.31	0.02	NZGB 4 1/2 04/15/27	2.85	-0.04
JPY	-0.05	-0.04	0.03	0.25	JPY	0.05	0.01	NZGB 3 1/2 04/14/33	3.21	-0.04
CAD	1.00	1.17	1.80	2.28	CAD	1.95	0.04	NZGB 2 3/4 04/15/37	3.41	-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 06:39

Source: Bloomberg

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