

18 August 2017

Events Round-Up

NZ: PPI output (q/q%), 2Q: 1.3 vs. 1.4 prev.
NZ: ANZ consumer confidence, Aug: 126.2 vs. 125.4 prev.
AU: Employment change ('000), Jul: 27.9 vs. 20.0 exp..
AU: Unemployment rate (%), Jul: 5.6 vs. 5.6 exp.
UK: Retail sales ex auto fuel (m/m%), Jul: 0.5 vs. 0.1 exp.
EC: CPI (m/m%), Jul: -0.5 vs. -0.5 exp.
US: Philadelphia Fed bus. outlook, Aug: 18.9 vs. 18.0 exp.
US: Industrial production (m/m%), Jul: 0.2 vs. 0.3 exp.

Good Morning

There have been a number of market drivers overnight that add up to a risk-off tone, seeing the yen and Swiss franc the best performing currencies, and equities and rates lower.

US equities are down around 1% and the VIX index is up from 11.5 to around 14.5 as a risk-off tone has set in. While some weaker earnings reports explain some of the weakness in stocks, there has been a lot of other stuff going on in the background.

Early in the session, rumours were swirling that top White House economic adviser Gary Cohn would be resigning in disgust over Trump's recent comments following the racial violence in Charlottesville. He has been leading Trump's efforts on tax reform and has been widely picked as the possible front-runner to replace Fed Chair Yellen early next year. Later in the session, a White House official confirmed that Cohn would remain in his position.

A terrorist attack in Barcelona, with at least 13 deaths so far and major injuries to many others, added to the risk-off tone.

Economic data wasn't market moving. In the US, industrial production was slightly weaker than expected, while there were signs of further tightness in the labour market, as jobless claims fell to their lowest level since February and the second-lowest level since 1973.

In the currency market, movements have been fairly modest, with CHF and JPY the best performers in the risk-off environment, both up about 0.4% against the USD, seeing USD/JPY down to 109.70. The USD itself is flat to slightly higher on the various indices, with EUR, GBP and CAD losing ground.

EUR was hit following the release of the ECB's minutes of the July meeting. There were three references to the higher EUR in the minutes, which were a little surprising, as President Draghi had dodged making a big deal of EUR strength at his Press Conference. The minutes expressed concern about the exchange rate "overshooting in the future", which saw EUR fall towards 1.1660, but it subsequently recovered and sits this morning at 1.1745, but still down 0.2% for the day. The minutes revealed sensitivity to market reaction as it pulls away from its QE programme. We still look for next month for the timing of the announcement for guidance on the tapering of its asset purchase programme, with a risk of the central bank waiting until October.

The NZD has been out of the spotlight and range-bound, sitting this morning close to 0.7300, while NZD/AUD sits close to where it was 24 hours ago at 0.9230. All the crosses are little changed apart from a 0.6% fall in NZD/JPY to around the 80 mark.

The risk-off tone sees global bond rates nudge lower. The US 10-year rate is down 2.5bps to just below 2.20%, currently at its low for the session. It has been a fairly parallel shift across the curve, with 2-yr and 30-yr rates down the same. The Fed's Kaplan showed his bent on rate hikes, being prepared to sit on the sidelines and wait for the pick-up in inflation before tightening again. He said that "I think we should be very patient and judicious" and wants to see more progress on raising inflation before hiking rates again, but he is okay with getting the process of shrinking the balance sheet underway in near future.

The NZ swap rates curve showed a flattening bias, with larger falls at the longer end of the curve, as it reacted to the fall in US rates in the previous session. The 10-year swap rate fell by 3bps to 3.15%, while the 2-year rate was underpinned around 2.18%. The government's tender of \$200m 2025 bonds showed only moderate demand, with a bid-cover ratio of just over 2, as investors anxiously await the possible announcement of syndication of a new 2029 bond issue. The calendar over the day ahead is fairly uneventful so it should be a quiet day as we head into the weekend.

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Coming Up

	Period	Cons.	Prev.	NZT
EC Construction output (m/m%)	Jun		-0.7	21:00
CA CPI (y/y%)	Jul	1.2	1.0	00:30
US U. of Mich. cons. sentiment	Aug	94.0	93.4	02:00
US U. of Mich. 5-10 Yr Inflation	Aug		2.6	02:00
US Fed's Kaplan Speaks in Dallas				02:15

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	0.7299	-0.2	0.7289	0.7335	CHF	0.9621	-0.4		S&P 500	2,443	-1.0	11.9	Oil (Brent)	50.92	+1.3
AUD	0.7907	-0.2	0.7903	0.7963	SEK	8.113	+0.4		Dow	21,830	-0.9	17.5	Oil (WTI)	47.06	+0.6
EUR	1.1744	-0.2	1.1662	1.1790	NOK	7.952	+0.3		Nasdaq	6,251	-1.5	19.6	Gold	1286.4	+0.7
GBP	1.2879	-0.1	1.2853	1.2909	HKD	7.823	+0.0		Stoxx 50	3,462	-0.6	16.2	HRC steel	621.0	+0.0
JPY	109.66	-0.5	109.61	110.37	CNY	6.676	-0.2		FTSE	7,388	-0.6	7.7	CRB	175.9	+0.3
CAD	1.2651	+0.3			SGD	1.365	+0.2		DAX	12,203	-0.5	15.8	Wheat Chic.	440.8	-1.4
NZD/AUD	0.9231	+0.1			IDR	13,358	-0.1		CAC 40	5,147	+0.4	16.5	Sugar	13.29	+2.7
NZD/EUR	0.6215	+0.0			THB	33.25	-0.0		Nikkei	19,703	-0.1	19.5	Cotton	67.45	-0.1
NZD/GBP	0.5667	-0.1			KRW	1,137	-0.4		Shanghai	3,268	+0.7	5.3	Coffee	132.1	-1.8
NZD/JPY	80.04	-0.7			TWD	30.31	-0.1		ASX 200	5,779	-0.1	4.9	WM powder	3255.0	-0.2
NZ TWI	77.15	-0.2			PHP	51.30	-0.2		NZX 50	7,870	+0.2	6.6	Australian Futures		
Interest Rates						NZ Government Bonds				NZ Swap Yields					
Rates		Swap Yields		Benchmark 10 Yr Bonds											
	Cash	3Mth	2 Yr	10 Yr	USD	Last	Net Day			Last					
USD	1.25	1.32	1.58	2.15	USD	2.20	-0.03	NZGB 3 04/15/20	2.01	-0.02	1 year	2.02	0.00		
AUD	1.50	1.70	1.91	2.80	AUD	2.64	-0.02	NZGB 6 05/15/21	2.15	-0.03	2 year	2.18	-0.01		
NZD	1.75	1.96	2.18	3.15	NZD	2.85	-0.03	NZGB 5 1/2 04/15/23	2.44	-0.04	5 year	2.65	-0.02		
EUR	0.00	0.06	-0.17	0.82	GER	0.43	-0.02	NZGB 2 3/4 04/15/25	2.70	-0.04	7 year	2.89	-0.02		
GBP	0.25	0.28	0.55	1.16	GBP	1.09	-0.02	NZGB 4 1/2 04/15/27	2.85	-0.03	10 year	3.15	-0.03		
JPY	-0.05	-0.04	0.03	0.23	JPY	0.05	0.01	NZGB 3 1/2 04/14/33	3.23	-0.03	15 year	3.41	-0.03		
CAD	0.75	1.17	1.58	2.15	CAD	1.86	-0.01	NZGB 2 3/4 04/15/37	3.47	-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 06:53

Source: Bloomberg

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