

18 December 2017



Events Round-Up

NZ: Manufacturing PMI, Nov: 57.7 vs. 57.3 prev.

JN: Tankan Large Mfg Outlook, Nov: 22 vs. 22 exp.

US: Empire Manufacturing Index, Dec: 18.0 vs 18.7 exp

US: Industrial Production (m/m%): 0.2% vs 0.3% exp

Good Morning

US stock indices rose to new record highs on Friday and the USD strengthened across the board as House and Senate Republicans agreed on a final version of the tax bill for vote this week. Republican senators Bob Corker and Marco Rubio both indicated they would vote for the bill this week, giving the market greater comfort that it would pass the Senate vote and ultimately be enacted. The NZD has stabilised around 0.70 as we await a raft of domestic data this week.

The tax bill was officially released after the market close on Friday, although most of the details had already been leaked earlier in the week. The corporate tax rate will be cut to 21% from 35%, effective next year, although US corporates will lose some of their tax deductions. The bill also includes cuts to personal tax rates (which will expire in 2025). Republicans agreed to boost the child tax credit, which Senator Rubio said means he can now vote for the bill when its presented to the Senate this week. Senator Corker, who originally voted against the tax plan amidst a running spat with President Trump, said on Friday he would support the bill too. The Republicans have a narrow 51-49 majority in the Senate and thus can't afford many defectors. The market took the news that Rubio and Corker would vote for the bill positively with US stocks pushing to fresh record highs; the S&P 500 was up almost a percent.

The USD strengthened across the board Friday evening as the markets priced a greater likelihood of the tax bill passing. US short end yields rose as well and the US yield curve resumed its flattening trend (the US 2 year rate is up 2 basis points while the US 10 year rate is unchanged). The rates market seems to imply that the fiscal stimulus will lead to a short-term pick-up in growth, which will endorse further Fed tightening, without doing much for

longer-term growth.

The USD strength on Friday night saw the NZD drift back below 0.70. The NZD again traded in a relatively narrow range. The NZD increased on most of the crosses, with the NZDAUD up to near 0.9150 and NZDEUR approaching 0.60.

The GBP was one of the worst performing currencies on Friday, despite EU leaders officially agreeing to move to the next phase of Brexit talks, focused on the terms of a transition arrangement for after March 2019 and ultimately on a trade agreement. The GBP was down almost a percent against the dollar. German Chancellor Merkel commented that "*the most difficult phase is ahead of us*", although that shouldn't really surprise anyone. UK media reported that the government intends to hold a parliamentary vote this week to enshrine 29 March 2019 as the date the UK leaves the EU, although this may again be voted down. While recent defeats in the House of Commons highlight the weakness of the Theresa May's government, the fact that parliament will have a greater say in the process raises the likelihood of a softer Brexit, in our opinion (the majority of parliamentarians supported "remain" in the referendum).

Locally, we will receive a number of important data releases this week. The highlight will be GDP which is released on Thursday. We are anticipating an above-consensus 0.7% increase for Q3. The ANZ Business Survey will also attract attention when it is released on Tuesday. Last month's Survey showed a sharp fall in confidence after the formation of the Labour-led coalition, and we will be interested to see whether there is any bounce back this month. Net migration, the trade balance, consumer confidence and another dairy auction are also released.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ Performance Services Index	Nov		55.6	10:30
NZ ANZ Consumer Confidence Index	Dec		123.7	13:00
EZ CPI Core YoY		0.9	0.9	23:00
US NAHB Housing Market Index	Dec	70	70	04:00

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	0.6993	+0.1	0.6997	0.7034	CHF	0.9905	+0.1		S&P 500	2,676	+0.9	18.3	
AUD	0.7646	-0.3	0.7642	0.7695	SEK	8.504	+0.8		Dow	24,652	+0.6	24.2	
EUR	1.1749	-0.2	1.1761	1.1812	NOK	8.383	+1.0		Nasdaq	6,937	+1.2	27.1	
GBP	1.3320	-0.8	1.3305	1.3446	HKD	7.812	+0.0		Stoxx 50	3,561	+0.1	9.6	
JPY	112.60	+0.2	112.03	112.74	CNY	6.609	+0.0		FTSE	7,491	+0.6	6.8	
CAD	1.2866	+0.5			SGD	1.349	+0.2		DAX	13,104	+0.3	14.9	
NZD/AUD	0.9146	+0.4			IDR	13,570	-0.0		CAC 40	5,349	-0.0	11.0	
NZD/EUR	0.5952	+0.4			THB	32.51	+0.0		Nikkei	22,553	-0.6	16.2	
NZD/GBP	0.5250	+0.9			KRW	1,089	+0.0		Shanghai	3,266	-0.8	4.6	
NZD/JPY	78.74	+0.3			TWD	29.99	-0.1		ASX 200	5,997	-0.2	8.4	
NZD/CAD	0.8997	+0.7			PHP	50.45	-0.1		NZX 50	8,361	+0.4	23.7	
NZ TWI	74.06	+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	Last	Last		
USD	1.50	1.60	2.03	2.34	USD	2.35	0.00	NZGB 3 04/15/20	1.92	-0.02	1 year	1.99	0.00
AUD	1.50	1.77	1.97	2.72	AUD	2.52	-0.03	NZGB 6 05/15/21	2.07	-0.02	2 year	2.18	0.00
NZD	1.75	1.86	2.18	3.08	NZD	2.72	-0.04	NZGB 5 1/2 04/15/23	2.32	-0.04	5 year	2.62	-0.01
EUR	0.00	0.06	-0.18	0.78	GER	0.30	-0.02	NZGB 2 3/4 04/15/25	2.58	-0.04	7 year	2.84	-0.01
GBP	0.50	0.52	0.79	1.24	GBP	1.15	-0.02	NZGB 4 1/2 04/15/27	2.72	-0.04	10 year	3.08	-0.02
JPY	-0.03	-0.02	0.04	0.24	JPY	0.05	-0.00	NZGB 3 1/2 04/14/33	3.05	-0.05	15 year	3.32	-0.02
CAD	1.00	1.17	1.89	2.19	CAD	1.84	-0.02	NZGB 2 3/4 04/15/37	3.25	-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: Friday night New York Close

Source: Bloomberg

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