

18 January 2018



Events Round-Up

AU: Westpac consumer confid. Jan: 105.1 vs. 103.3 prev.

AU: Home loans (m/m%), Nov: 2.1 vs. 0.0 exp.

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

CA: Bank of Canada policy rate (%), 1.25 vs. 1.25 exp.

US: NAHB housing market index, Jan: 72 vs. 72 exp.

Good Morning

The NZD has recovered overnight after slipping through the local trading session on little news. Bitcoin continued to plunge, falling as low as \$9185 this morning, which still seems about \$9000 too high.

Market volatility remains suppressed but there have been a few ups and downs in the NZD over the past 24 hours, with the USD in the driving seat. It feels like there is some nervousness about a possible US government shutdown this weekend, with some of the ups and downs reflecting news headlines about that. News that House Republicans were coalescing behind a plan to avert a shutdown helped support the USD and nudge the NZD down yesterday afternoon but there has been no fresh news on this overnight, suggesting that internal debate amongst Republicans continues. The NZD is trading just above the 0.73 mark this morning.

US industrial production was stronger than expected, but led by mining and utilities, with manufacturing production softer. In an interview with the WSJ, the Fed's Kaplan, a non-voter this year, says he feels "strongly and I have a lot of conviction that the base case should be three moves for this year, and if I'm wrong, it could even potentially be more than that". There was little market reaction to all this. US 10-year rates have been tightly range-bound between 2.54-2.57% since the NZ close.

As widely expected, the Bank of Canada raised its policy rate for a third time this cycle to 1.25%. The Bank noted that more hikes were expected, but it retained cautious language about future adjustments, citing the need for continued accommodation. The uncertainty about NAFTA talks was raised as a current issue. Market pricing shows another hike by May fully priced and another one by October. The CAD showed some volatility around the announcement, but is little changed for the session. NZD/CAD is up slightly to 0.9060.

After running up 1.2320 during illiquid trading conditions yesterday afternoon, EUR has shifted back down and trades around 1.2240. The ECB's Vice President Constancio added to the chorus of officials trying to limit the pace of EUR strength. He noted "I am concerned about sudden movements which don't reflect changes in fundamentals", the latter reflecting the modest tick down in inflation. He signalled that there is little prospect of a change to policy language next week, arguing that officials should be careful not to "choke off growth too soon." The ECB's Nowotny echoed these comments overnight and these follow similar sentiment from the French Governor Villeroy de Galhau yesterday.

The market has clearly noticed these remarks, with EUR/GBP down 0.5% as the GBP has managed to push up to 1.3835 on little fresh news. GBP strength this year is our highest conviction call for 2018 as a Brexit transitional deal gets bedded down, effectively keeping the UK in the EU for another few years.

NZD/AUD is back to 0.9135 after trending lower yesterday afternoon and dipping to 0.9090 soon after the local close yesterday. Some support for the AUD came from positive consumer confidence and housing finance data. AUD/USD is trading close to the 0.80 mark, but has yet to push through.

In the local rates market there hasn't been much movement in bond and swap rates this week but there has been plenty of activity in the credit market and Kauri issuance has shown its usual early-year flourish. Today sees the DMO's first government bond tender this year, with an offer of \$200m 2025 bonds. We expect it to go well, as bonds have been in short supply for some time.

On the economic front, REINZ house sales and price data are released this morning, where we expect to see some resilience in house prices and recovering sales from a low base, with the election out of the way. China's data dump of real activity indicators and Australian employment data this afternoon offer some scope for action in commodity currencies. Our colleagues at NAB suggest upside risk to the consensus 15k uplift in employment based on strong forward indicators and favourable sampling rotation.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	REINZ house sales (y/y%)	Dec		-8.9	09:00
AU	Employment change ('000)	Dec	15.0	61.6	13:30
AU	Unemployment rate (%)	Dec	5.4	5.4	13:30
NZ	NZ to sell \$200m 2025 bonds				14:05
CH	GDP (y/y%)	Q4	6.7	6.8	15:00
CH	Fixed assets (y/y%)	Dec	7.1	7.2	15:00
CH	Retail sales (y/y%)	Dec	10.2	10.2	15:00
CH	Industrial production (y/y%)	Dec	6.1	6.1	15:00
US	Housing starts ('000)	Dec	1275	1297	02:30
US	Building permits ('000)	Dec	1295	1298	02:30
US	Philly Fed business outlook	Jan	24.8	26.2	02:30

Source: Bloomberg, BNZ

Foreign Exchange						Equities				Commodities**				
Indicative overnight ranges (*)					Other FX		Major Indices				Price			
	Last	% Day	Low	High		Last	% Day			Last	% Day	Net Day		
NZD	0.7305	+0.5	0.7235	0.7306	CHF	0.9610	+0.2	S&P 500	2,793	+0.6	23.2	Oil (Brent)	69.30	+0.2
AUD	0.7997	+0.5	0.7941	0.7998	SEK	8.024	-0.2	Dow	26,019	+0.9	31.2	Oil (WTI)	63.95	+0.4
EUR	1.2240	-0.2	1.2197	1.2270	NOK	7.851	-0.3	Nasdaq	7,272	+0.7	31.3	Gold	1335.1	-0.1
GBP	1.3839	+0.3	1.3757	1.3845	HKD	7.819	-0.1	Stoxx 50	3,613	-0.3	10.0	HRC steel	675.0	+0.9
JPY	110.80	+0.3	110.56	110.93	CNY	6.434	-0.2	FTSE	7,725	-0.4	7.0	CRB	196.1	+0.5
CAD	1.2405	-0.2			SGD	1.321	+0.0	DAX	13,184	-0.5	14.2	Wheat Chic.	433.5	+0.8
NZD/AUD	0.9135	+0.1			IDR	13,359	+0.2	CAC 40	5,494	-0.2	13.1	Sugar	13.40	-1.5
NZD/EUR	0.5968	+0.7			THB	31.96	+0.1	Nikkei	23,868	-0.3	26.3	Cotton	81.78	+0.4
NZD/GBP	0.5279	+0.2			KRW	1,069	+0.6	Shanghai	3,445	+0.2	10.7	Coffee	123.7	+2.7
NZD/JPY	80.94	+0.8			TWD	29.57	+0.1	ASX 200	6,016	-0.5	5.9	WM powder	3140.0	+3.6
NZD/CAD	0.9062	+0.3			PHP	50.77	+0.5	NZX 50	8,298	+0.6	17.5	Australian Futures		
NZ TWI	75.35	+0.4										3 year bond	97.76	-0.05
												10 year bond	97.20	-0.03
Interest Rates						NZ Government Bonds				NZ Swap Yields				
	Rates		Swap Yields		Benchmark 10 Yr Bonds		Last		Last		Last			
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day								
USD	1.50	1.73	2.23	2.57	USD	2.56	0.02	NZGB 3 04/15/20	1.99	0.00	1 year	2.01	0.01	
AUD	1.50	1.80	2.09	2.94	AUD	2.79	0.02	NZGB 6 05/15/21	2.17	0.00	2 year	2.23	0.01	
NZD	1.75	1.89	2.22	3.22	NZD	2.87	-0.01	NZGB 5 1/2 04/15/23	2.43	0.00	5 year	2.72	-0.00	
EUR	0.00	0.06	-0.13	0.95	GER	0.56	0.00	NZGB 2 3/4 04/15/25	2.67	-0.01	7 year	2.97	-0.01	
GBP	0.50	0.52	0.86	1.38	GBP	1.31	0.01	NZGB 4 1/2 04/15/27	2.87	-0.01	10 year	3.22	-0.01	
JPY	-0.04	-0.03	0.05	0.29	JPY	0.09	0.01	NZGB 3 1/2 04/14/33	3.20	-0.01	15 year	3.46	-0.01	
CAD	1.25	1.17	2.14	2.52	CAD	2.19	0.01	NZGB 2 3/4 04/15/37	3.35	-0.01				

* 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 06:51

Source: Bloomberg

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