

18 October 2017

Events Round-Up

- NZ: CPI (q/q%), Q3: 0.5 vs. 0.4 exp.
- NZ: CPI (y/y%), Q3: 1.9 vs. 1.8 exp.
- UK: CPI YoY, Sep: 3.0 vs. 3.0 exp.
- UK: CPI Core YoY, Sep: 2.7 vs. 2.7 exp.
- GE: ZEW survey expectations, Oct: 17.6 vs. 20 exp.
- NZ: GDT dairy auction avg. winning price: -1.0%
- US: Industrial production (m/m%), Sep: 0.3 vs. 0.3 exp.
- US: NAHB housing market index, Oct: 68 vs. 64 exp.

Good Morning

More of the same. Low volatility, small price changes and the US equity market cracking another milestone, this time 23,000 for the Dow Jones index. NZD is relatively flat against a backdrop of broad increased support for the USD.

Within minutes after hitting the send button yesterday, there were reports that Trump had met with Stanford economist John Taylor as a possible candidate for the Fed Chair position and he was impressed. The same report suggested that Kevin Warsh was less favoured. Both are viewed as hawkish candidates, with Taylor's widely used "rule" suggesting that rates should be higher. This supported the USD and nudged rates higher, although movements have been modest. Overnight the US 10-year rate found the air above 2.32% thin and it has since settled just over 2.30%, a similar level to the NZ close. The USD is up on all the key crosses and up 0.25% on the TWI majors index.

We've seen a little bit of action in the NZD, but it has traded within a 50pip range. It rose about 25pips but met resistance around 0.72 after Q3 CPI data came in slightly higher than market expectations. Thereafter it drifted lower and fell after the RBNZ released its favoured core inflation series, which showed annual inflation static at 1.4%, going against the grain of the official core measures that nudged higher and were around the 2% mark. The overnight low of 0.7148 came soon after the latest GDT dairy auction showed an average 1% drop in prices. Without a bounce-back from the fall in the previous auction, downside risk for the \$6.75 milk payout forecast for this season is now clearly evident. NZD currently sits at 0.7170, similar to the local close yesterday.

NZD crosses are flat to slightly higher. GBP has been one

of the weakest performers, down 0.6% to 1.3180, which sees NZD/GBP up to 0.5440. UK annual CPI inflation data were line, hitting 3% in September for the first time since 2012. In BoE Carney's testimony to lawmakers he reiterated that the Bank is ready to raise interest rates "over the coming months", while new MPC member Ramsden emerged as a dove, saying he wasn't part of the majority expecting to raise rates. Meanwhile according to unnamed officials, the EU is doing preparatory work on a UK trade deal, which sends a positive signal to the UK.

EUR remained under pressure as traders focus on Thursday's deadline for the Catalan President to clarify his stance on independence from Spain. Spain's economic ministry cut the country's growth forecast for next year by 0.3pps to 2.3%, citing the impact of the political standoff with Catalonia. EUR is down 0.3% to 1.1765, which sees NZD/EUR up to 0.6090.

CAD remains under modest downward pressure with NAFTA negotiations overhanging the currency. Canada and Mexico were said to reject the hardline demands by the US. NZD/AUD is flat around 0.9140.

Stronger NZ CPI data put some upward pressure on NZ rates yesterday, with the 2-year swap rate up 3bps to 2.22% but then the RBNZ's published flat core rate saw rates retreat, and it closed up by less than 1bp to 2.20%. Until core inflation increases, as measured by the RBNZ, the Bank is unlikely to budge. The curve still shows the first full rate hike priced by November 2018, still more than a year away. We saw a similar pattern in longer term rates. The 5-year swap rate closed the session up by less than 1bp to 2.70%, while the 10-year rate was flat at 3.20%.

There's nothing of note on the calendar for the local trading session. NZ coalition government negotiations remain ongoing and we're not hopeful of getting a result today. The Fed's Dudley and Harker speak tonight and second-tier US housing market data are released and that's about it.

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Coming Up

	Period	Cons.	Prev.	NZT	
UK	ILO unemployment rate (%)	Aug	4.3	4.3	21:30
US	Fed's Dudley and Kaplan discuss	econ. development		01:00	
US	Housing starts ('000)	Sep	1175	1180	01:30
US	Building permits ('000)	Sep	1245	1300	01:30

Source: Bloomberg, BNZ

Foreign Exchange								Equities				Commodities**				
Indicative overnight ranges (*)				Other FX				Major Indices				Price				
	Last	% Day	Low	High		Last	% Day			Last	% Day	% Year		Last	Net Day	
NZD	0.7170	-0.0	0.7148	0.7186	CHF	0.9805	+0.4			S&P 500	2,556	-0.1	20.2	Oil (Brent)	57.45	-0.3
AUD	0.7844	-0.1	0.7818	0.7861	SEK	8.159	+0.5			Dow	22,976	+0.1	27.0	Oil (WTI)	51.53	-0.4
EUR	1.1766	-0.3	1.1736	1.1781	NOK	7.953	+0.6			Nasdaq	6,621	-0.1	27.3	Gold	1283.7	-1.2
GBP	1.3179	-0.5	1.3155	1.3287	HKD	7.808	+0.0			Stoxx 50	3,608	+0.0	19.9	HRC steel	590.0	-0.8
JPY	112.20	+0.0	112.06	112.48	CNY	6.624	+0.5			FTSE	7,516	-0.1	8.2	CRB	184.0	-0.3
CAD	1.2543	+0.2			SGD	1.357	+0.3			DAX	12,995	-0.1	23.7	Wheat Chic.	453.5	-0.4
NZD/AUD	0.9141	+0.1			IDR	13,507	+0.2			CAC 40	5,361	+0.5	20.5	Sugar	14.03	-1.1
NZD/EUR	0.6094	+0.2			THB	33.11	+0.1			Nikkei	21,336	+0.4	25.8	Cotton	67.96	+0.4
NZD/GBP	0.5440	+0.5			KRW	1,133	+0.4			Shanghai	3,372	-0.2	9.3	Coffee	124.1	+0.4
NZD/JPY	80.45	+0.0			TWD	30.19	+0.2			ASX 200	5,890	+0.7	8.9	WM powder	3100.0	+2.0
NZD/CAD	0.8993	+0.2			PHP	51.31	+0.1			NZX 50	8,112	+0.3	16.3	Australian Futures		
NZ TWI	75.67	+0.2												3 year bond	97.88	0.01
														10 year bond	97.22	0.02
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	1.35	1.80	2.28	USD	2.30	0.00	NZGB 3 04/15/20	2.06	0.03	1 year	2.03	0.00			
AUD	1.50	1.70	1.98	2.91	AUD	2.76	0.02	NZGB 6 05/15/21	2.22	0.02	2 year	2.20	0.01			
NZD	1.75	1.93	2.20	3.20	NZD	2.94	0.02	NZGB 5 1/2 04/15/23	2.51	0.02	5 year	2.70	0.01			
EUR	0.00	0.06	-0.19	0.83	GER	0.37	-0.01	NZGB 2 3/4 04/15/25	2.78	0.01	7 year	2.95	0.00			
GBP	0.25	0.38	0.81	1.31	GBP	1.28	-0.06	NZGB 4 1/2 04/15/27	2.94	0.02	10 year	3.20	0.00			
JPY	-0.04	-0.03	0.04	0.25	JPY	0.07	0.01	NZGB 3 1/2 04/14/33	3.28	0.02	15 year	3.44	0.00			
CAD	1.00	1.17	1.87	2.33	CAD	2.02	-0.01	NZGB 2 3/4 04/15/37	3.49	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: NZT 06:56

Source: Bloomberg

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