

18 September 2017

## Events Round-Up

NZ: REINZ house sales (y/y%), Aug: -20.0 vs. -24.5 prev.  
NZ: Manufacturing PMI, Aug: 57.9 vs. 55.5 prev.  
US: Retail sales advance (m/m%), Aug: -0.2 vs. 0.1 exp.  
US: Ret. sales ex auto, gas (m/m%), Aug: -0.1 vs. 0.3 exp.  
US: Industrial production (m/m%), Aug: -0.9 vs. 0.1 exp.  
US: U. of Mich. cons. sentiment, Sep P: 95.3 vs. 95.0 exp.

## Good Morning

In currency markets on Friday, GBP remained in the spotlight making further strong gains, while the NZD also closed the week on a strong note. The S&P500 closed at a record high, breaching the 2,500 mark while the VIX index closed the week near a highly risk-loving level of 10. Global bond yields tracked higher.

Friday morning trading got off to an ominous start, with North Korea firing another missile high in the atmosphere over Japan, but the market reaction to such provocations seems to be diminishing by the missile. By lunchtime the NZD looked like it was heading near 0.72 but by the end of the New York session it had closed around 0.73. We can't point to any specific NZD drivers that caused the nearly full cent rally, but market risk sentiment was broadly positive.

Key US data on retail sales and industrial production came in weaker than expected, with much of the latter explainable by Hurricane Harvey but not the former, although some pointed to a payback in retail sales from recent strength. The impact of the data on US Treasury rates and the USD was fairly muted and other drivers were more important.

GBP rose by 1.5% to follow-up on its BoE-inspired 1.4% gain the previous day. This time around it was the BoE's usually dovish Vlieghe driving GBP higher, after he said that he backed Thursday's decision to flag the likelihood that interest rates may rise in coming months. GBP closed near the 1.36 mark, its highest level since the Brexit vote. It's clear that a bit of a shake-out in short GBP positions is going on, with the BoE's intent to tighten policy despite a softer economic backdrop coming as a bit of a shock. The UK 10-year rate piled on another 8bps to 1.31%, taking its weekly gain to 32bps. A rate hike in November is now priced at about a 65% chance compared to less than a 3% chance a week ago. NZD/GBP closed at 0.5370, down 2½% for the week.

Some GBP strength spilled over into EUR but it got a further boost after the ECB's Lautenschlaeger said that now is the time for policy decisions on slowing asset purchases or exiting other unconventional measures that have helped support the euro area economy. However, towards the end of the session, there were some headlines that the ECB expects to reinvest an average €15b per month from maturing debt next year, even as it tapers its QE programme. ECB officials (unattributed) said that investors weren't giving enough attention to the impact from these reinvestments. This took some shine off EUR and it closed up "only" 0.2% to 1.1945. During the weekend ECB Board member Praet gave what looked like a dovish interview, saying that "Underlying inflation remains too low. We have to be patient and persevere with our policy. A substantial stimulus is still necessary". This might keep EUR on the backfoot as the new week begins.

The risk-on environment saw JPY weakness, with USD/JPY up 0.5% to 110.80. AUD was flat around 0.80, so the NZD's outperformance saw the NZD/AUD cross up to 0.9115, its highest close this month. Hard commodity prices look to have made a decisive turn downwards after a somewhat speculative run up over recent months. Copper prices have fallen in 6 of the past 7 trading days, while iron ore prices are also heading south, losing another 2.5% on Friday and taking its fall over the past couple of weeks to nearly 9%. More of this would see further recovery in NZD/AUD.

US 10-year Treasury rates looked to be more influenced by the upward pressure in UK and Germany rates than the soft economic data, rising by 2bps for the session to 2.20%, its highest close in nearly 4 weeks. Focus this week turns to the FOMC meeting (early Thursday morning NZ time), with the Fed expected to announce the start of its balance sheet reduction programme, but more interest will lie in the new dot-plot projections of the Fed Funds rate. There will be some downside pressure on the median "dots" with some FOMC members likely to reduce their expectation for rate hikes ahead.

Upside pressure on global rates continued to feed into the NZ curve, with the 2-year swap rate up 2bps to 2.21% and the 10-year rate up 3bps to 3.19%. Apart from the usual global forces, this week the market will be interested in Q2 GDP due Thursday, ahead of Saturday's election.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ Performance of services index	Aug		56.0	10:30
EC CPI (y/y%)	Aug F	1.5	1.3	21:00
EC CPI core (y/y%)	Aug F	1.2	1.2	21:00
US NAHB housing market index	Sep	67	68	02:00

Source: Bloomberg, BNZ

Foreign Exchange					Equities				Commodities**						
Indicative overnight ranges (*)					Major Indices				Price						
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day				
NZD	0.7299	+1.1	0.7232	0.7311	CHF	0.9603	-0.3		S&P 500	2,500	+0.2	16.9	Oil (Brent)	55.62	+0.3
AUD	0.8002	-0.0	0.7989	0.8035	SEK	7.966	-0.3		Dow	22,268	+0.3	22.9	Oil (WTI)	49.89	+0.0
EUR	1.1945	+0.2	1.1905	1.1987	NOK	7.851	-0.3		Nasdaq	6,448	+0.3	23.0	Gold	1321.3	-0.3
GBP	1.3595	+1.5	1.3397	1.3616	HKD	7.819	+0.1		Stoxx 50	3,516	-0.3	19.8	HRC steel	624.0	-0.2
JPY	110.83	+0.5	110.35	111.33	CNY	6.553	-0.1		FTSE	7,215	-1.1	7.5	CRB	184.1	+0.4
CAD	1.2198	+0.3			SGD	1.345	-0.1		DAX	12,519	-0.2	21.8	Wheat Chic.	468.0	+1.2
NZD/AUD	0.9121	+1.0			IDR	13,240	-0.1		CAC 40	5,214	-0.5	20.3	Sugar	14.55	+2.0
NZD/EUR	0.6111	+0.8			THB	33.10	+0.1		Nikkei	19,910	+0.5	20.5	Cotton	70.13	+0.5
NZD/GBP	0.5369	-0.4			KRW	1,132	-0.1		Shanghai	3,354	-0.5	11.7	Coffee	141.4	+2.7
NZD/JPY	80.89	+1.6			TWD	30.05	-0.2		ASX 200	5,695	-0.8	7.5	WM powder	3080.0	-0.2
NZ TWI	76.23	+1.0			PHP	51.25	+0.2		NZX 50	7,763	-0.7	7.1	<b>Australian Futures</b>		
										3 year bond			97.81	-0.05	
										10 year bond			97.19	-0.03	
Interest Rates					NZ Government Bonds				NZ Swap Yields						
	Rates				Benchmark 10 Yr Bonds				Last			Last			
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day									
USD	1.25	1.32	1.64	2.17	USD	2.20	0.02	NZGB 3 04/15/20	2.05	0.01	1 year	2.03	0.01		
AUD	1.50	1.72	2.08	2.96	AUD	2.74	0.02	NZGB 6 05/15/21	2.19	0.01	2 year	2.21	0.02		
NZD	1.75	1.94	2.21	3.19	NZD	2.94	0.02	NZGB 5 1/2 04/15/23	2.52	0.02	5 year	2.68	0.03		
EUR	0.00	0.06	-0.18	0.88	GER	0.43	0.02	NZGB 2 3/4 04/15/25	2.79	0.02	7 year	2.93	0.03		
GBP	0.25	0.33	0.79	1.37	GBP	1.31	0.08	NZGB 4 1/2 04/15/27	2.94	0.02	10 year	3.19	0.03		
JPY	-0.06	-0.03	0.02	0.22	JPY	0.03	-0.02	NZGB 3 1/2 04/14/33	3.29	0.02	15 year	3.45	0.03		
CAD	1.00	1.17	1.96	2.37	CAD	2.09	0.03	NZGB 2 3/4 04/15/37	3.52	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: NY close Sat morn.

Source: Bloomberg

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