

19 October 2017

Events Round-Up

UK: ILO unemployment rate (%), Aug: 4.3 vs. 4.3 exp.

US: Housing starts ('000), Sep: 1127 vs. 1175 exp.

US: Building permits ('000), Sep: 1215 vs. 1245 exp.

Good Morning

Another day, another push higher in global equity markets to fresh highs, with strong US earnings supporting the move. The NZD is on the soft side as we await the formation of a new government, while JPY is softer as global bond rates push higher.

Not a lot of news out there to drive markets. On the economic front, US housing starts and permits were weaker than expected, but the data were dragged down by Hurricanes Harvey and Irma. UK labour market data showed the unemployment rate steady at a 42-year low and with earnings growth continuing to lag inflation.

It's hard to summarise China's leader Xi Jinping 3 hour 20 minute opening address to the 5-yearly Communist Party Congress in a nice soundbite. The WSJ noted that it was a robust and lengthy defence of the Communist Party's role as captain of the economy, and while it touched on openness and reforms, the speech was more focused on government-led initiatives. Bloomberg noted that the message was more focused on "quality" of growth rather than "quantity", so there was no reiteration of the previous leader's pledge to double the size of the economy, and there was more mention of the "environment". Market reaction to the monologue was fairly muted.

USD indices are flat for the day. Within the mix, CAD is the best performer, following its rally from early yesterday morning on reports that NAFTA negotiations might extend into 2018 as key policy differences remain. USD/CAD is down 0.4% to 1.2470.

The NZD has been tracking modestly weaker over the past 24 hours and is just under the 0.7150 mark after reaching as low as 0.7120 last night. Two factors are likely in play. The soft GDT dairy auction triggered a couple of forecast reductions to Fonterra's milk payout for the current season. BNZ reduced its projection from \$6.75 to \$6.30. The makings of soft dairy pricing continuing over coming months are there. The currency market is also nervous ahead of a possible announcement later today of the formation of a new government. Yesterday, NZ First

issued a press release statement that it would be in a position this afternoon to make an announcement on the result of negotiations. Expect some short-term NZD volatility.

Also on the soft side, JPY has underperformed as global rates push higher. USD/JPY is up 0.6%, closing in on the 113 level, while NZD/JPY is up to 80.7. The US yield curve is steeper, with the 10-year rate up 4bps to 2.34% and the 2-year rate up 1bp to 1.56%. Germany and UK 10-year rates are up 3-4bps.

A number of factors are in play for the increase in rates. The FT ran a story stating the case for a reduction in ECB purchases from €60bn per month to €20bn from next year, but extending the purchases through to the end of next year. This "drawn out" programme, would deliver a steeper reduction in ECB demand for bonds, but also delay any potential rate hike well into 2019, in a bid to soften any impact on the euro. In the US, speculation continues around who the next Fed chair will be. Sources suggest that Trump's choice will be unveiled before 3 November. New York Fed President Dudley said the central bank is on track to deliver on its forecast of three interest rate hikes in 2017. Finally, US tax reform negotiations are bubbling away in the background.

AUD, GBP and EUR have all showed little movement against the USD. The underperforming NZD sees all the crosses weaker. NZD/AUD has found some support at the 0.91 level.

The NZ rates market continues to trade quietly. There hasn't been much activity in the lead-up to the NZ government formation announcement. Rates and spreads to the US and Australia remain below pre-election levels, indicating a lack of concern about the obvious extra fiscal stimulus we'll see in the years ahead. NZ's 10-year bond rate closed down 4bps yesterday to 2.90%, with the 60bp spread to the US 10-year rate at the time being at the narrower end of recent ranges. The 10-year swap rate fell by 2bps to 3.18%, while the 2-year swap rate was flat at 2.20%.

An announcement on government formation will keep the market on its toes today, with Australian employment and China activity data added to the mix.

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Coming Up

	Period	Cons.	Prev.	NZT
AU NAB business confidence	Q3		7	13:30
AU Employment change ('000)	Sep	15.0	54.2	13:30
AU Unemployment rate (%)	Sep	5.6	5.6	13:30
CH GDP (y/y%)	Q3	6.8	6.9	15:00
CH Retail sales (y/y%)	Sep	10.2	10.1	15:00
CH Fixed assets investment (y/y%)	Sep	7.7	7.8	15:00
CH Industrial production (y/y%)	Sep	6.5	6.0	15:00
UK Retail sales ex auto fuel (m/m%)	Sep	-0.2	1.0	21:30
US Philly Fed business outlook	Oct	22.0	23.8	01:30

Source: Bloomberg, BNZ

Foreign Exchange						Equities				Commodities**				
Indicative overnight ranges (*)					Other FX		Major Indices				Price			
	Last	% Day	Low	High		Last	% Day			Last	Net Day			
NZD	0.7145	-0.4	0.7120	0.7161	CHF	0.9811	+0.3	S&P 500	2,563	+0.1	19.8	Oil (Brent)	58.09	+0.3
AUD	0.7844	-0.0	0.7819	0.7854	SEK	8.149	-0.0	Dow	23,151	+0.7	27.5	Oil (WTI)	52.03	+0.3
EUR	1.1785	+0.2	1.1730	1.1794	NOK	7.961	+0.2	Nasdaq	6,633	+0.2	26.5	Gold	1283.0	-0.2
GBP	1.3185	-0.0	1.3140	1.3212	HKD	7.808	+0.0	Stoxx 50	3,620	+0.3	18.8	HRC steel	590.0	-0.8
JPY	112.91	+0.6	112.22	113.05	CNY	6.627	+0.1	FTSE	7,543	+0.4	7.8	CRB	183.9	-0.2
CAD	1.2476	-0.4			SGD	1.357	+0.1	DAX	13,043	+0.4	22.7	Wheat Chic.	449.3	-1.0
NZD/AUD	0.9109	-0.4			IDR	13,513	+0.0	CAC 40	5,384	-0.2	19.4	Sugar	14.08	+0.4
NZD/EUR	0.6063	-0.5			THB	33.14	+0.1	Nikkei	21,363	+0.1	25.7	Cotton	67.61	-0.1
NZD/GBP	0.5419	-0.3			KRW	1,130	-0.2	Shanghai	3,382	+0.3	9.6	Coffee	124.3	-0.0
NZD/JPY	80.67	+0.3			TWD	30.21	+0.1	ASX 200	5,890	+0.0	8.4	WM powder	3040.0	-1.3
NZD/CAD	0.8914	-0.7			PHP	51.44	+0.3	NZX 50	8,115	+0.0	16.3	Australian Futures		
NZ TWI	75.45	-0.4										3 year bond	97.87	-0.01
												10 year bond	97.22	0.00
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	1.36	1.81	2.31	USD	2.34	0.04	NZGB 3 04/15/20	2.05	-0.01	1 year	2.03	0.00	
AUD	1.50	1.70	1.98	2.91	AUD	2.72	-0.04	NZGB 6 05/15/21	2.20	-0.02	2 year	2.20	0.00	
NZD	1.75	1.93	2.20	3.18	NZD	2.90	-0.04	NZGB 5 1/2 04/15/23	2.48	-0.03	5 year	2.69	-0.01	
EUR	0.00	0.06	-0.18	0.85	GER	0.40	0.03	NZGB 2 3/4 04/15/25	2.75	-0.03	7 year	2.93	-0.01	
GBP	0.25	0.38	0.82	1.35	GBP	1.32	0.04	NZGB 4 1/2 04/15/27	2.90	-0.04	10 year	3.18	-0.02	
JPY	-0.04	-0.03	0.04	0.26	JPY	0.07	0.00	NZGB 3 1/2 04/14/33	3.24	-0.04	15 year	3.41	-0.03	
CAD	1.00	1.17	1.88	2.35	CAD	2.03	0.02	NZGB 2 3/4 04/15/37	3.45	-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 06:50

Source: Bloomberg

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