

19 September 2017

Events Round-Up

NZ: Performance of services, Aug: 57.3 vs. 56.0 prev.

US: NAHB housing market index, Sep: 64 vs. 67 exp.

Good Morning

The USD and rates are higher as the market positions itself for the FOMC meeting later in the week. Trading conditions are fairly quiet and that may remain the case until Thursday morning's important update from the Fed. The consensus expects the Fed to announce the beginning of "quantitative tightening" (QT), with its balance sheet expected to begin shrinking from next month, initially at a pace of \$10bn, and the Fed to keep its options open for another possible rate hike in December.

Fed Funds pricing suggests that the odds of a hike by December have been ticking higher over recent sessions and are now just above the 50% mark. Yields continue to rise across the curve, with the US 10-year Treasury rate up another 2bps to 2.22%. Since bottoming out just over a week ago when Hurricane Irma fears were at their greatest and US-North Korea tensions were higher, the 10-year rate has piled on about 21bps, while the 2-year rate has piled on 14bps to 1.39%.

Yesterday, US Secretary of State Rex Tillerson said that the US seeks a peaceful resolution to the tension with North Korea, but is prepared to use military force if diplomatic efforts fail to end the nuclear standoff. This has helped support the risk-on environment, which sees the S&P500 up to another record high. Trump's first address before the United Nations is tonight, so there's no guarantee these benign market conditions will sustain another day.

The USD is up mostly across the board, with the TWI majors index up 0.3%. The CAD has taken the biggest hit, with USD/CAD up 0.9% to 1.2310 after Bank of Canada Deputy Governor Lane said that policy makers will be "paying close attention" to how the economy responds to higher borrowing costs and a stronger CAD, following rate increases in July and earlier this month. The comments raise a question mark about the next possible rate hike, given the strong run in the CAD recently.

GBP is down 0.7% to 1.3490, with some traders taking profits after its surge post the BoE's surprisingly hawkish tone last week. The fall came ahead of a speech by Governor Carney and the currency fell further after that. While he stuck to the line that some BoE tightening may be needed in coming months, he indicated that rate hikes

will be "limited and gradual" and noted there remains "considerable risks to the UK outlook". He recognised the slowing in growth as the Brexit process begins but he also suggested that UK potential growth had also fallen as a result, and this partly explains why the MPC now says it may need to raise rates soon.

USD/JPY is up 0.5% to 111.40, with the higher bond yield (risk-on) environment not helping, and the yen also suffered after reports that Prime Minister Abe may call a snap election when he returns from the US, with a vote potentially coming in October. This could be a risky move for him.

After the NZD's likely flow-driven push higher up through 0.7340 yesterday afternoon, it has been all downhill since, as the USD has been in the driving seat, with the NZD down 0.6% for the day to 0.7260, almost a full cent off its high. The AUD has tracked a similar path, and is down 0.6% to 0.7955, with NZD/AUD up a touch to 0.9125. All the event risk this week is concentrated on Thursday, the same day as the FOMC meeting, with NZ GDP, a speech by RBA Governor Lowe and the BoJ meeting the same day.

There's little to add on EUR, with the currency one of the few to hold its ground against a solid USD. EUR is flat at 1.1950.

NZ rates continue to follow the higher and steeper path of the global rates curve. The 2-year swap rate rose by 2bps to 2.23% and the 5-year and 10-year rates rose by 5bps to 2.73% and 3.24% respectively. The market is now pricing in the first full RBNZ rate hike around September 2018, which in practice means a toss-up between the August MPS (BNZ economists' view) and the November MPS. This is understandable. In a world where the major central banks are tightening policy it would be highly unusual for the RBNZ to be standing pat. It's all looking like a repeat of the late-June sell-off in rates, with global central banks in the driving seat.

jason.k.wong@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
NZ	Westpac consumer confidence	Q3		113.4	10:00
AU	House price index (q/q%)	2Q	1.3	2.2	13:30
AU	RBA Sept. rate meeting minutes				13:30
EC	Construction output (m/m%)	Jul		-0.5	21:00
GE	ZEW survey expectations	Sep	12	10	21:00
NZ	GDT dairy auction avg winning price			3323	
US	Housing starts ('000)	Aug	1174	1155	00:30
US	Building permits ('000)	Aug	1220	1223	00:30

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	0.7257	-0.6	0.7248	0.7319	CHF	0.9615	+0.1	S&P 500	2,502	+0.1	17.0	Oil (Brent)	55.38	-0.4
AUD	0.7952	-0.6	0.7940	0.8030	SEK	7.970	+0.0	Dow	22,333	+0.3	23.2	Oil (WTI)	49.86	-0.1
EUR	1.1947	+0.0	1.1915	1.1969	NOK	7.837	-0.2	Nasdaq	6,443	-0.1	22.8	Gold	1307.0	-1.1
GBP	1.3488	-0.8	1.3465	1.3619	HKD	7.817	-0.0	Stoxx 50	3,527	+0.3	20.2	HRC steel	620.0	-0.6
JPY	111.46	+0.6	111.15	111.66	CNY	6.575	+0.3	FTSE	7,253	+0.5	8.1	CRB	183.7	-0.2
CAD	1.2304	+0.9			SGD	1.349	+0.3	DAX	12,559	+0.3	22.2	Wheat Chic.	463.8	-1.0
NZD/AUD	0.9126	+0.1			IDR	13,255	+0.1	CAC 40	5,229	+0.3	20.7	Sugar	14.31	-1.6
NZD/EUR	0.6074	-0.5			THB	33.10	-0.0	Nikkei	19,910	+0.5	20.5	Cotton	70.41	+0.4
NZD/GBP	0.5380	+0.2			KRW	1,127	-0.4	Shanghai	3,363	+0.3	11.1	Coffee	140.4	-0.7
NZD/JPY	80.89	+0.0			TWD	30.09	+0.1	ASX 200	5,721	+0.4	8.0	WM powder	3080.0	+0.0
NZ TWI	75.98	-0.3			PHP	51.10	-0.3	NZX 50	7,759	-0.1	6.6	Australian Futures		
											3 year bond	97.8	-0.01	
											10 year bond	97.16	-0.03	
Interest Rates						NZ Government Bonds				NZ Swap Yields				
Rates		Swap Yields			Benchmark 10 Yr Bonds		Last			Last				
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day								
USD	1.25	1.32	1.65	2.19	USD	2.23	0.02	NZGB 3 04/15/20	2.10	0.03	1 year	2.03	0.00	
AUD	1.50	1.72	2.06	2.98	AUD	2.80	0.06	NZGB 6 05/15/21	2.24	0.05	2 year	2.23	0.02	
NZD	1.75	1.94	2.23	3.24	NZD	3.00	0.06	NZGB 5 1/2 04/15/23	2.57	0.04	5 year	2.73	0.05	
EUR	0.00	0.06	-0.17	0.89	GER	0.46	0.02	NZGB 2 3/4 04/15/25	2.85	0.05	7 year	2.98	0.05	
GBP	0.25	0.33	0.78	1.36	GBP	1.30	-0.01	NZGB 4 1/2 04/15/27	3.00	0.05	10 year	3.24	0.05	
JPY	-0.06	-0.03	0.02	0.22	JPY	0.03	0.00	NZGB 3 1/2 04/14/33	3.35	0.06	15 year	3.50	0.05	
CAD	1.00	1.17	1.92	2.35	CAD	2.09	-0.00	NZGB 2 3/4 04/15/37	3.58	0.06				

* 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 06:49

Source: Bloomberg

Contact Details

New Zealand	Jason Wong	Senior Markets Strategist	+(64 4) 924 7652
Australia	Ray Attrill	Head of FX Strategy	+(61 2) 9237 1848
	Rodrigo Catril	Currency Strategist	+(61 2) 9237 7109
London	Gavin Friend	Senior Markets Strategist	+(44 0) 20 7710 0898

ANALYST DISCLAIMER: The person or persons named as the author(s) of this report hereby certify that the views expressed in the research report accurately reflect their personal views about the subject securities and issuers and other subject matters discussed. No part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the research report. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Markets Division of National Australia Bank Limited, a member of the National Australia Bank Group ("NAB"). The views of the author(s) do not necessarily reflect the views of NAB and are subject to change without notice. NAB may receive fees for banking services provided to an issuer of securities mentioned in this report. NAB, its affiliates and their respective officers, and employees, including persons involved in the preparation or issuance of this report (subject to the policies of NAB), may also from time to time maintain a long or short position in, or purchase or sell a position in, hold or act as advisors, brokers or commercial bankers in relation to the securities (or related securities and financial instruments), of companies mentioned in this report. NAB or its affiliates may engage in these transactions in a manner that is inconsistent with or contrary to any recommendations made in this report.

NEW ZEALAND DISCLAIMER: This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

USA DISCLAIMER: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.

National Australia Bank Limited is not a registered bank in New Zealand.