

20 December 2017



Events Round-Up

NZ: Westpac Consumer Confidence, Q4: 107.4 vs. 112.4 prev.

NZ: ANZ Business Confidence, Dec: -37.8 vs. -39.3 prev.

GE: IFO Business Climate, Dec: 117.2 vs. 117.5 est.

NZ: Dairy Auction Avg. Winning Price: \$2,969 vs. \$3,091 prev.

US: Housing Starts: 1297k vs 1250k exp.

Good Morning

US stocks have drifted back from their record highs overnight as the market awaits the House vote on the US tax bill later today ahead of the Senate vote tomorrow. Global bond yields moved higher after some hawkish comments from ECB members and better than expected US housing data. But low liquidity probably exacerbated the moves.

The market now fully expects the Senate vote on the US tax bill tomorrow to be successful after senators Lee and Collins declared their intention to support the bill. Lee and Collins had previously expressed reservations about certain aspects of the bill, but their support seems to give the Republicans the required numbers to pass the bill in the Senate. US stocks initially moved to new highs in the morning, before drifting lower overnight, which probably signals that the enactment of the tax plan is fully priced-in now. After finishing with the tax bill, Republicans will then need to shift focus to agreeing a spending plan by the end of the week. Republicans need Democrat support in the Senate to pass the spending bill and prevent a government shutdown this Friday. Even if a spending plan isn't agreed later this week, it wouldn't be the first time the market has seen temporary government shutdown so the impact will probably be relatively modest (although thin liquidity over Christmas always means there is the risk of unpredictable moves).

Global bond yields moved higher overnight, with the 10 year US Treasury yield up 6 basis points to 2.46%, its highest level in 2 months. Several factors contributed to the move higher in yields. US housing data beat expectations overnight while European bond yields also

moved sharply higher, supposedly in response to some hawkish comments from ECB members. ECB member Makuch said Governing Council discussions were "shifting from asset purchases to possible future use of interest rates to regulate the economy." Another ECB member, Hansson, said he expected the ECB to adjust their communication in the first half of 2018. We wouldn't necessarily read too much into the comments from well-known hawkish members of the ECB; unless core inflation picks up in Europe, President Draghi and the more dovish committee members are unlikely to adopt a markedly more hawkish policy. Thin liquidity in bond markets probably exacerbated the move higher in yields.

The USD is stronger against most currencies overnight, helped by the strong US housing data, although most currencies remain relatively range-bound. The euro was the best performing major currency, with the aforementioned hawkish comments from ECB members providing some support. The German IFO survey was a touch lower than market expectations, but continued to point towards robust economic momentum in the euro area.

The NZD remains stuck around 0.70, having traded a tight 0.6980 to 0.7020 range overnight. The ANZ Business Survey released yesterday rebounded a bit from its sharp fall last month, and this provided a short-term boost to the NZD. The Survey remains below its long-term average, although we think the real economy is doing better than implied by the Survey. The Global Dairy Trade auction overnight showed dairy prices, including for whole milk powder, fell from a fortnight ago. But there was little impact on the NZD. Today, we receive net migration and the trade balance but the market is more focused on Q3 GDP which is released tomorrow.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ Net Migration SA	Nov		5580	10:45
NZ Trade Balance NZD	Nov	-550	-871	10:45
NZ Current Account GDP Ratio YTD	3Q	-2.5	-2.8	10:45
SW Riksbank Interest Rate	Dec	-0.5	-0.5	21:30
US Existing Home Sales	Nov	5.53	5.48	04:00

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	0.6987	-0.1	0.6978	0.7019	CHF	0.9863	+0.1	S&P 500	2,683	-0.3	18.6	Oil (Brent)	63.66	+0.4
AUD	0.7655	-0.1	0.7646	0.7684	SEK	8.415	-0.3	Dow	24,764	-0.1	24.5	Oil (WTI)	57.43	+0.5
EUR	1.1829	+0.4	1.1787	1.1832	NOK	8.370	+0.1	Nasdaq	6,961	-0.5	27.6	Gold	1263.1	-0.2
GBP	1.3371	-0.1	1.3331	1.3402	HKD	7.817	+0.0	Stoxx 50	3,582	-0.8	10.0	HRC steel	635.0	+0.0
JPY	113.05	+0.4	112.51	113.07	CNY	6.605	-0.2	FTSE	7,544	+0.1	7.5	CRB	186.0	+0.3
CAD	1.2886	+0.2			SGD	1.348	+0.0	DAX	13,216	-0.7	15.7	Wheat Chic.	434.3	+0.2
NZD/AUD	0.9127	+0.0			IDR	13,576	-0.0	CAC 40	5,383	+0.1	11.6	Sugar	14.40	+4.7
NZD/EUR	0.5907	-0.5			THB	32.77	+0.4	Nikkei	22,868	-0.1	17.3	Cotton	75.25	+0.1
NZD/GBP	0.5225	-0.0			KRW	1,085	-0.3	Shanghai	3,297	+0.9	6.2	Coffee	121.4	-0.4
NZD/JPY	78.99	+0.3			TWD	29.97	-0.1	ASX 200	6,072	+0.5	8.6	WMI powder	2850.0	-4.7
NZD/CAD	0.9003	+0.1			PHP	50.34	-0.2	NZX 50	8,401	+0.7	23.7	Australian Futures		
NZ TWI	73.87	-0.2										3 year bond	97.84	-0.05
												10 year bond	97.33	-0.09

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				
USD	1.50	1.63	2.07	2.45	USD	2.46	0.07	NZGB 3 04/15/20	1.91	-0.01	1 year	2.00	0.00
AUD	1.50	1.79	2.04	2.84	AUD	2.58	0.04	NZGB 6 05/15/21	2.06	-0.02	2 year	2.19	0.00
NZD	1.75	1.86	2.19	3.10	NZD	2.71	0.00	NZGB 5 1/2 04/15/23	2.28	-0.03	5 year	2.64	0.01
EUR	0.00	0.06	-0.17	0.85	GER	0.38	0.07	NZGB 2 3/4 04/15/25	2.56	-0.01	7 year	2.87	0.01
GBP	0.50	0.51	0.78	1.29	GBP	1.21	0.06	NZGB 4 1/2 04/15/27	2.71	0.00	10 year	3.10	0.00
JPY	-0.05	-0.02	0.04	0.25	JPY	0.04	0.00	NZGB 3 1/2 04/14/33	3.05	0.01	15 year	3.35	0.00
CAD	1.00	1.17	1.96	2.31	CAD	1.94	0.08	NZGB 2 3/4 04/15/37	3.25	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 06:59

Source: Bloomberg

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