

20 November 2017



Events Round-Up

NZ: Manufacturing PMI, Oct: 57.2 vs. 57.6 prev.

NZ: PPI output (q/q%), Q3: 1.0 vs. 1.3 prev.

US: Housing starts ('000), Oct: 1290 vs. 1190 exp.

US: Building permits ('000), Oct: 1297 vs. 1250 exp.

Good Morning

The NZD underperformed on Friday, alongside other commodity currencies. Global rates and US equities showed modest falls amidst a slight risk-off tone.

The USD came under some downward pressure Friday afternoon as reports surfaced that investigators into possible Russian interference in the US presidential election had subpoenaed Trump's election campaign for documents. This gave a lift to the NZD to around 0.6880 but it was all downhill from there, including another lurch down near the UK open, taking it through the year-to-date low of 0.6818. With key technical support broken, it wasn't until the 0.6780 mark that the NZD found some fresh support, a level not seen since June 2016. It then clawed back up and closed the week at 0.6816, still the weakest performer for the day.

There was no NZ specific news to explain the move. If anything, the PMI reading early in the session showed solid manufacturing activity in October amidst the period of uncertainty around the government formation. CFTC data through to last Tuesday showed that net speculative shorts continued to be extended, to their highest level since mid-May. Going by the NZD's underperformance last week, those short positions probably extended further.

Other commodity currencies didn't fare that well either, with the AUD, CAD and NOK all underperforming, suggesting some global macro theme in play – perhaps concern about the outlook for China or global growth, and potentially reduced demand for commodities. However, that's not a convincing explanation as emerging market currencies (on the JP Morgan index) gained for the second consecutive day.

The NZD's underperformance saw it down on all the key crosses we follow, with NZD/AUD softening a touch to 0.9010. Fresh lows were seen for NZD/EUR and NZD/GBP closing the week around 0.5780 and 0.5160 respectively. JPY was the best performing major on the risk-off tone, seeing NZD/JPY down a chunky 1.4% for the session to 76.3.

It seemed like a flow-driven market, given the light newsflow. The only data worth mentioning was strong US housing starts and permits, but they didn't prevent the USD indices falling for the day, with the TWI majors index down 0.2%, continuing to show a tendency to fall through November to date.

The US yield curve continued to show a flattening bias, with the 2-year Treasury rate up 1bp to a new cycle high of 1.72% and the 10-year rate down 3bps to 2.34%, taking the 2s10s spread down to 62bps, a 10-year low.

NZ's benchmark 90-day bank bill rate fell to a record low of 1.905% on Friday. Banks are well ahead of their funding targets as raising money offshore has been easy, while credit growth is relatively soft. So domestic liquidity conditions are very easy and this is driving short-term rates to new lows, with some "risk-free" rates trading below the OCR. This is keeping a lid on the 2-year swap rate, which trades at the lower end of its recent range at 2.16%, despite the RBNZ's recent upgrade to its inflation forecasts and slightly more hawkish tone. The near term risk is that the 2-year swap rate drifts even lower.

The day ahead looks to be uneventful, with only second-tier local data in the mix. On paper, the week ahead doesn't look to be particularly eventful either and the US Thanksgiving holiday later in the week should add to the quiet tone.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ	Performance of services index	Oct	56.0	10:30
NZ	Food prices (m/m%)	Oct	-0.2	10:45
EC	ECB's President Draghi speaks in Brussels			03:00

Source: Bloomberg, BNZ

Foreign Exchange							Equities				Commodities**		
Indicative overnight ranges (*)				Other FX			Major Indices			Price			
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day		
NZD	0.6816	-0.6	0.6781	0.6856	CHF	0.9891	-0.5		S&P 500	2,579	-0.3	18.2	
AUD	0.7565	-0.3	0.7536	0.7590	SEK	8.428	+0.3		Dow	23,358	-0.4	23.8	
EUR	1.1790	+0.2	1.1774	1.1816	NOK	8.240	+0.4		Nasdaq	6,783	-0.2	27.5	
GBP	1.3215	+0.2	1.3170	1.3260	HKD	7.812	+0.0		Stoxx 50	3,547	-0.5	17.4	
JPY	112.10	-0.8	111.96	112.69	CNY	6.627	-0.1		FTSE	7,381	-0.1	8.9	
CAD	1.2763	+0.0			SGD	1.356	-0.0		DAX	12,994	-0.4	21.8	
NZD/AUD	0.9010	-0.2			IDR	13,531	-0.1		CAC 40	5,319	+0.0	18.1	
NZD/EUR	0.5781	-0.7			THB	32.85	-0.2		Nikkei	22,397	+0.2	24.7	
NZD/GBP	0.5158	-0.7			KRW	1,098	-0.4		Shanghai	3,383	-0.5	6.0	
NZD/JPY	76.41	-1.4			TWD	30.08	-0.1		ASX 200	5,957	+0.2	11.2	
NZD/CAD	0.8699	-0.5			PHP	50.95	+0.4		NZX 50	8,062	+0.3	17.6	
NZ TWI	72.36	-0.7											

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	1.25	1.44	1.89	2.34	USD	2.34	-0.03	NZGB 3 04/15/20	2.01	0.02	1 year	2.00	-0.00
AUD	1.50	1.72	1.90	2.75	AUD	2.57	-0.01	NZGB 6 05/15/21	2.16	0.02	2 year	2.16	-0.00
NZD	1.75	1.91	2.16	3.14	NZD	2.87	0.02	NZGB 5 1/2 04/15/23	2.45	0.02	5 year	2.65	-0.01
EUR	0.00	0.06	-0.20	0.83	GER	0.36	-0.02	NZGB 2 3/4 04/15/25	2.70	0.02	7 year	2.89	-0.01
GBP	0.50	0.53	0.82	1.35	GBP	1.29	-0.02	NZGB 4 1/2 04/15/27	2.87	0.02	10 year	3.14	-0.01
JPY	-0.05	-0.03	0.04	0.24	JPY	0.04	-0.02	NZGB 3 1/2 04/14/33	3.23	0.02	15 year	3.38	-0.01
CAD	1.00	1.17	1.77	2.26	CAD	1.94	-0.04	NZGB 2 3/4 04/15/37	3.43	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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