

20 October 2017

Events Round-Up

AU: NAB business confidence, Q3: 7 vs. 7 prev.
AU: Employment change ('000), Sep: 19.8 vs. 15.0 exp.
AU: Unemployment rate (%), Sep: 5.5 vs. 5.6 exp.
CH: GDP (y/y%), Q3: 6.8 vs. 6.8 exp.
CH: Retail sales (y/y%), Sep: 10.3 vs. 10.2 exp.
CH: Fixed assets investment (y/y%), Sep: 7.5 vs. 7.7 exp.
CH: Industrial production (y/y%), Sep: 6.6 vs. 6.5 exp.
UK: Retail sales x auto fuel (m/m%), Sep: -0.7 vs. -0.2 exp.
US: Philly Fed business outlook, Oct: 27.9 vs. 22.0 exp.

Good Morning

The NZD is down significantly after NZ First opted to support a Labour-led government, while the rates market reaction has been muted. A slight risk-off tone has enveloped markets overnight, with global equity markets showing a rare fall, a higher VIX and UST yields nudging lower.

The key market mover over the past day has been a much weaker NZD. Relative to the last NY close at 10am yesterday, it is down between 1.5% (vs GBP) and 2.3% (vs EUR) on all the key crosses. The overnight low on NZD/USD was 0.7012, with the currency finding a base close to that mark since midnight. As I write, NZD/AUD is still drifting lower and sits near it low for the session around 0.8910.

So what have we got to go on? No policy details have been announced. A coalition agreement will be signed today and publicly released early next week. NZ First will get four Ministerial positions within Cabinet and an under-secretary. Greens will get three ministerial positions, outside of Cabinet and an under-secretary role. The lack of policy detail at this stage means that we are wary of jumping to conclusions for the market. Key on the agenda will be reductions in immigration (students, rather than skilled workers), modifications to the RBNZ Act (more cosmetic than real and unlikely to change much what drives RBNZ policy decisions), a greater-than-otherwise increase in the minimum wage, easier-than-otherwise fiscal policy, and a higher projected bond programme.

While everyone expected some sticker-shock from a Labour-NZ First-Greens government formation, any further fall will be moderated to the extent that the result was half-expected and recent NZD underperformance over recent weeks reflected a reasonable chance of the

outcome. Winston Peters' talk of fighting capitalism and his (and Labour's) more populist agenda don't sound market-friendly at face value, but the reality is that we'll likely see only a minor shift in economic direction.

A cloud will overhang the NZD until we get more policy detail over the coming week, but we'd expect the negative impulse from domestic political forces to quickly fade before more important global forces take over. Our currency forecasts can be considered under review until we get more policy detail, but we already had the NZD lower at 0.70 by year end and into the high 0.60s next year.

For NZ rates, our offshore desks report not a lot of trading action, and price action has been muted overall. NZ 2-year swap got offered down a couple of 2bps to 2.18% where it met some paying interest and we saw some slight curve steepening. Once the sticker-shock fades we see upside pressure to rates, but it is arguable how significant this is or should be. Adding employment into the policy mix for the RBNZ is within global norms (eg RBA, Fed) and won't have much impact on policy, with the NZ economy close to "fully employed". Easier fiscal policy and a weaker NZD need to be considered by the RBNZ as it considers its next policy move. The NZ-US 10-year spread is at the lower end of recent ranges, and upside pressure looked likely to prevail no matter what the hue of the government. Higher inflation expectations, increased debt issuance and perhaps an added risk premium argue for a steeper curve from here.

In overnight news, a modest risk-off mood has prevailed, not helped by some disappointing US earnings. US jobless claims fell to their lowest level since 1973 and on a population-adjusted basis they moved to a record low. UK retail sales were softer than expected, with annual growth of 1.5% down to a four-year low. UST yields are down 2-3bps across the curve, with the 10-year rate down to 2.32%.

Catalan President Puigdemont refused to back down from his claim for independence triggering Spain's PM Rajoy to issue a statement invoking Article 155 of the Constitution "to restore the legality" of the semi-autonomous region. This saw EUR fall 50pips to 1.1770 but it has since recovered that move and some to trade at 1.1830. AUD has been well supported after another strong employment report, seeing it trade up to 0.7875.

The calendar ahead looks fairly light and focus will remain on NZ political developments in the day(s) ahead.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ Net migration ('000)	Sep		5490	10:45
CA CPI (y/y%)	Sep	1.7	1.4	01:30
CA Retail sales (m/m%)	Aug	0.5	0.4	01:30
US Existing home sales (mn)	Sep	5.30	5.35	03:00

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	0.7018	-1.9	0.7012	0.7146	CHF	0.9759	-0.6	S&P 500	2,558	-0.1	19.3	Oil (Brent)	57.28	-1.5
AUD	0.7872	+0.3	0.7847	0.7884	SEK	8.144	+0.0	Dow	23,133	-0.1	27.1	Oil (WTI)	51.43	-1.2
EUR	1.1835	+0.4	1.1768	1.1858	NOK	7.957	-0.0	Nasdaq	6,590	-0.5	25.6	Gold	1286.4	+0.5
GBP	1.3155	-0.4	1.3135	1.3222	HKD	7.802	-0.1	Stoxx 50	3,602	-0.5	17.9	HRC steel	595.0	+0.8
JPY	112.56	-0.3	112.30	113.15	CNY	6.614	-0.2	FTSE	7,523	-0.3	7.1	CRB	184.1	+0.1
CAD	1.2480	+0.1			SGD	1.358	+0.1	DAX	12,990	-0.4	22.0	Wheat Chic.	451.8	+0.6
NZD/AUD	0.8915	-2.2			IDR	13,515	+0.0	CAC 40	5,368	-1.3	18.8	Sugar	14.13	+0.4
NZD/EUR	0.5930	-2.3			THB	33.13	-0.0	Nikkei	21,449	+0.4	24.4	Cotton	67.37	-0.4
NZD/GBP	0.5335	-1.5			KRW	1,132	+0.2	Shanghai	3,370	-0.3	9.3	Coffee	126.9	+2.1
NZD/JPY	78.99	-2.2			TWD	30.22	+0.0	ASX 200	5,896	+0.1	8.3	WM powder	3020.0	-0.3
NZD/CAD	0.8758	-1.8			PHP	51.48	+0.1	NZX 50	8,124	+0.1	16.5	Australian Futures		
NZ TWI	74.05	-2.0										3 year bond	97.86	-0.01
												10 year bond	97.22	0.00
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	1.36	1.79	2.30	USD	2.32	-0.03	NZGB 3 04/15/20	2.07	0.02	1 year	2.03	0.00	
AUD	1.50	1.70	1.99	2.91	AUD	2.76	0.04	NZGB 6 05/15/21	2.23	0.02	2 year	2.21	0.01	
NZD	1.75	1.93	2.21	3.20	NZD	2.94	0.04	NZGB 5 1/2 04/15/23	2.51	0.03	5 year	2.71	0.02	
EUR	0.00	0.06	-0.19	0.85	GER	0.40	-0.00	NZGB 2 3/4 04/15/25	2.78	0.03	7 year	2.95	0.02	
GBP	0.25	0.38	0.80	1.32	GBP	1.28	-0.04	NZGB 4 1/2 04/15/27	2.94	0.03	10 year	3.20	0.02	
JPY	-0.04	-0.04	0.03	0.25	JPY	0.07	-0.01	NZGB 3 1/2 04/14/33	3.27	0.04	15 year	3.43	0.02	
CAD	1.00	1.17	1.85	2.32	CAD	2.01	-0.03	NZGB 2 3/4 04/15/37	3.46	0.03				

* 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 06:39

Source: Bloomberg

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