

20 September 2017

Events Round-Up

NZ: Westpac consumer confid., Q3: 112.4 vs. 113.4 prev.

AU: House price index (q/q%), Q2: 1.9 vs. 1.3 exp.

GE: ZEW survey expectations, Sep: 17.0 vs. 12.0 exp.

NZ: GDT dairy auction avg winning price: +0.9%

US: Housing starts ('000), Aug: 1180 vs. 1174 exp.

US: Building permits ('000), Aug: 1300 vs. 1220 exp.

Good Morning

Markets have been uneventful overnight, with only second-tier data releases and traders sitting on their hands, waiting for the Fed's latest policy Statement in just under 24 hours. The NZD and AUD have been well bid for no obvious reason, while UST yields have drifted up a touch.

President Trump gave his first address to the UN and used the opportunity to single out a few rogue nations. He threatened to "totally destroy" North Korea and repeated that message in a later tweet. These sorts of provocations are now largely ignored by the market.

Equity investors show no real concern about the beginning of the Fed's "quantitative tightening" programme. The S&P500 is on track to make its third consecutive record close, although the 0.1% gain is hardly significant. The VIX index continues to hover around a risk-loving level of 10.

The NZD and AUD are at the top of the leaderboard, up in the order of 0.7-0.8% for the day. It's been a steady move higher for the NZD, with traders clearly not bothered by the looming election. The positive risk sentiment backdrop is the greater force at present. NZD is trading close to its highs for the session and sits around the 0.7320 mark. The overnight GDT dairy auction was broadly in line with the flat result expected, with average prices up by less than 1%.

The AUD is also near its highs for the session and sits around 0.8015, with NZD/AUD nudging a touch higher to 0.9135. Yesterday's RBA minutes didn't throw up any curveballs, with the RBA satisfied with the slightly better Australian growth picture and happy to keep monetary policy on hold. There was no dialling up of rhetoric about the recent strength in the AUD.

Most other major currencies are up slightly against the USD. EUR is up 0.4% to around the 1.20 mark. Earlier, it had dipped to 1.1950 as Reuters reported that the strong euro was causing a rift among ECB policy makers. These unnamed sources also said that the likelihood was rising that any end-date for purchases might not be set in stone or that part of the decision might be put off until December. The dip in EUR didn't last for long.

GBP is up a touch to 1.3520, with some intraday volatility as a clear rift is evident between Johnson and May, while USD/JPY is down a touch to 111.50.

US Treasury yields continue to trend higher after bottoming out a couple of weeks ago. The 10-year rate is up 1bpsto 2.24%, while the 2-year rate is flat at 1.40%. Ahead of the FOMC meeting, the market sees a slightly better than even chance of a Fed hike by December and a cumulative 1½ hikes by the end of next year, still well below the 4 hikes projected by the median FOMC member as indicated by the last set of "dotplots". The market seems fixated by how the dotplot might change, but it's really just an academic exercise and forthcoming economic data will continue to guide the Fed's decisions. The annual rotation sees a slightly more hawkish set of voters next year, there could well be a new Fed chair at the helm and there are still a number of vacant positions on the Board to be filled.

Higher global rates continue to spill over onto the NZ yield curve. The 2-year swap rate closed up 1bp 2.24% while the 10-year rate closed up 2bps to 3.26%, the latter reaching a 6-week high. It should be another quiet session today, ahead of the Fed, and NZ current account data shouldn't cause any notable reaction.

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Current a/c bal (% of GDP)	Q2	-3.1	-3.1	10:45
UK	Retail sales ex auto fuel (m/m%)	Aug	0.1	0.5	20:30
US	Existing home sales ('000)	Aug	5.46	5.44	02:00
US	FOMC Fed Funds rate (%)		1-1.25	1-1.25	06:00

Source: Bloomberg, BNZ

Foreign Exchange								Equities				Commodities**			
Indicative overnight ranges (*)					Other FX			Major Indices				Price			
	Last	% Day	Low	High		Last	% Day		Last	% Day	% Year		Last	Net Day	
NZD	0.7317	+0.7	0.7276	0.7327	CHF	0.9625	+0.1	S&P 500	2,507	+0.1	17.2	Oil (Brent)	55.20	-0.5	
AUD	0.8012	+0.7	0.7972	0.8020	SEK	7.946	-0.2	Dow	22,380	+0.2	23.5	Oil (WTI)	49.56	-0.7	
EUR	1.1998	+0.4	1.1955	1.2007	NOK	7.804	-0.4	Nasdaq	6,464	+0.1	23.5	Gold	1308.7	+0.1	
GBP	1.3523	+0.2	1.3469	1.3552	HKD	7.804	-0.2	Stoxx 50	3,531	+0.1	19.0	HRC steel	620.0	-0.6	
JPY	111.48	-0.1	111.20	111.88	CNY	6.584	+0.1	FTSE	7,275	+0.3	6.8	CRB	182.6	-0.6	
CAD	1.2273	-0.1			SGD	1.347	-0.1	DAX	12,562	+0.0	21.1	Wheat Chic.	464.0	+0.1	
NZD/AUD	0.9133	+0.1			IDR	13,279	+0.2	CAC 40	5,237	+0.1	19.2	Sugar	13.76	-3.8	
NZD/EUR	0.6099	+0.4			THB	33.07	-0.1	Nikkei	20,299	+2.0	23.1	Cotton	69.98	-0.6	
NZD/GBP	0.5411	+0.5			KRW	1,131	+0.4	Shanghai	3,357	-0.2	11.0	Coffee	135.4	-3.6	
NZD/JPY	81.57	+0.7			TWD	30.14	+0.1	ASX 200	5,714	-0.1	7.7	WM powder	3035.0	-0.2	
NZ TWI	76.43	+0.6			PHP	51.00	-0.2	NZX 50	7,765	+0.1	6.2	Australian Futures			
													3 year bond	97.79	0.00
													10 year bond	97.16	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			
USD	1.25	1.33	1.66	2.20	USD	2.24	0.01	NZGB 3 04/15/20	2.12	0.02	1 year	2.04	0.01		
AUD	1.50	1.72	2.06	2.99	AUD	2.81	0.02	NZGB 6 05/15/21	2.27	0.02	2 year	2.24	0.01		
NZD	1.75	1.94	2.24	3.26	NZD	3.03	0.03	NZGB 5 1/2 04/15/23	2.60	0.03	5 year	2.75	0.02		
EUR	0.00	0.06	-0.17	0.89	GER	0.45	-0.00	NZGB 2 3/4 04/15/25	2.88	0.03	7 year	3.00	0.02		
GBP	0.25	0.33	0.79	1.40	GBP	1.33	0.03	NZGB 4 1/2 04/15/27	3.03	0.03	10 year	3.26	0.02		
JPY	-0.06	-0.03	0.03	0.23	JPY	0.04	0.01	NZGB 3 1/2 04/14/33	3.37	0.03	15 year	3.52	0.02		
CAD	1.00	1.17	1.90	2.36	CAD	2.10	0.02	NZGB 2 3/4 04/15/37	3.59	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 06:50

Source: Bloomberg

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