

21 December 2017



## Events Round-Up

NZ: Net Migration, Nov: 5,610 vs. 5,580 prev.

NZ: Trade balance, Nov: -\$1,193mn vs. -\$550mn est.

NZ: Current Account to GDP, 3Q: -2.6% vs. -2.5% est.

SW: Riksbank Interest Rate, Dec: -0.5% vs. -0.5% est.

US: Existing Home Sales, Nov: 5.81mn vs 5.53mn est.

## Good Morning

US stocks are unchanged overnight after the House and Senate both approved the US tax bill, as widely expected. The bill will be sent back to the House today for a few small (uncontentious) amendments and then signed into law by Trump at some point this week. Global bond yields pushed higher again overnight, with the 10 year US Treasury yield almost reaching 2.50%, its highest level in 9 months. The NZD remains a little below 0.70.

The Senate voted 51-48 for the tax bill overnight. As we have reported the past few days, the tax bill seemed fully-priced into markets already, and consequently there was next to no impact on US stocks and very little on the USD. The House and Senate now shift their attention to agreeing a short-term spending plan that will keep the government funded until 19<sup>th</sup> January. Republicans need Democrat support in the Senate to pass the spending bill and avoid a temporary government shutdown. Media reported overnight that Republicans may drop their original plan to incorporate a full year's defence spending into the temporary funding bill, which would have met substantial opposition from Democrat senators. Such a move would increase the chance of the spending bill passing and avert a government shutdown.

Global bond yields increased further overnight, extending the moves seen on Tuesday evening. The 10 year US Treasury yield briefly hit 2.49%, its highest level in around 9 months, and the yield curve steepened. The 10 year German yield hit 0.4%, up 10 basis points in 2 days. There was no obvious catalyst for the move higher in yields with the tax-plan seemingly fully-priced already, although US existing home sales data did beat expectations. The ECB ceases its QE purchases for the

year on Thursday before resuming again at the start of 2018 (at a lower monthly purchase rate of €30bn).

The move higher in US yields led the USD to rise against the JPY ahead of the BoJ meeting later today. With the BoJ targeting a 0% 10 year Japanese yield, any shift higher in US yields automatically leads to wider interest rate differentials, and tends to push the USD higher against the JPY. The BOJ is expected to reaffirm its commitment to this 'yield curve control' policy when it meets today.

The USD was weaker against most of the other major currencies overnight, although the moves were reasonably contained. The NZD is continuing to hover a little below 0.70. The NZD fell briefly yesterday after the release of a much wider than expected NZ trade deficit. There wasn't anything in the trade balance, nor the net migration data, to change our economic view however. Today we receive Q3 GDP, where we are looking for an above consensus 0.7% for the quarter. We expect the NZD to remain reasonably range-bound against the USD in 2018.

Finally, the Swedish Krona was one of the best performing currencies overnight after the Riksbank announced that it would end its QE programme and said it still expected to raise rates in mid-2018 (from its current level of -0.5%).

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BNZ Markets Today will not be published over the Christmas/New Year period. Regular publication will resume early in the New Year.

We thank you for your readership over the year and hope you have a good break during the festive season.

*Merry Christmas*



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	0.6983	+0.2	0.6954	0.6986	CHF	0.9856	+0.1			S&P 500	2,682	-0.1	18.1	Oil (Brent)	64.24	+0.6
AUD	0.7675	+0.2	0.7656	0.7680	SEK	8.384	-0.2			Dow	24,754	+0.0	23.9	Oil (WTI)	57.94	+0.7
EUR	1.1878	+0.3	1.1829	1.1902	NOK	8.390	+0.5			Nasdaq	6,955	-0.0	26.8	Gold	1270.9	+0.5
GBP	1.3395	+0.1	1.3378	1.3420	HKD	7.822	+0.1			Stoxx 50	3,553	-0.8	8.3	HRC steel	635.0	+0.0
JPY	113.30	+0.4	112.93	113.36	CNY	6.579	-0.4			FTSE	7,525	-0.3	6.8	CRB	186.9	+0.6
CAD	1.2841	-0.3			SGD	1.344	-0.2			DAX	13,069	-1.1	14.0	Wheat Chic.	436.8	+1.0
NZD/AUD	0.9098	+0.0			IDR	13,579	+0.0			CAC 40	5,353	-0.3	10.4	Sugar	14.52	+1.3
NZD/EUR	0.5879	-0.2			THB	32.70	+0.0			Nikkei	22,892	+0.1	17.7	Cotton	75.47	+0.7
NZD/GBP	0.5213	+0.1			KRW	1,081	-0.4			Shanghai	3,288	-0.3	4.8	Coffee	123.5	+1.7
NZD/JPY	79.12	+0.5			TWD	29.94	-0.1			ASX 200	6,076	+0.1	8.2	WMI powder	2900.0	+0.0
NZD/CAD	0.8967	-0.1			PHP	50.25	-0.2			NZX 50	8,384	-0.2	23.2	<b>Australian Futures</b>		
NZ TWI	73.68	+0.0											3 year bond	97.85	0.01	
													10 year bond	97.33	0.00	
<b>Interest Rates</b>																
	Rates		Swap Yields		Benchmark 10 Yr Bonds		NZ Government Bonds			NZ Swap Yields						
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day		Last		Last		Last				
USD	1.50	1.64	2.06	2.45	USD	2.48	0.01	NZGB 3 04/15/20	1.90	-0.02	1 year	2.00	0.00			
AUD	1.50	1.80	2.01	2.83	AUD	2.63	0.06	NZGB 6 05/15/21	2.05	-0.01	2 year	2.19	-0.00			
NZD	1.75	1.86	2.19	3.12	NZD	2.72	0.01	NZGB 5 1/2 04/15/23	2.28	0.00	5 year	2.65	0.01			
EUR	0.00	0.06	-0.17	0.87	GER	0.41	0.03	NZGB 2 3/4 04/15/25	2.57	0.00	7 year	2.88	0.01			
GBP	0.50	0.51	0.80	1.32	GBP	1.25	0.05	NZGB 4 1/2 04/15/27	2.72	0.01	10 year	3.12	0.02			
JPY	-0.05	-0.02	0.04	0.27	JPY	0.06	0.02	NZGB 3 1/2 04/14/33	3.07	0.02	15 year	3.37	0.02			
CAD	1.00	1.17	1.99	2.33	CAD	1.97	0.03	NZGB 2 3/4 04/15/37	3.27	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 06:58

Source: Bloomberg

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