

21 November 2017



Events Round-Up

NZ: Perform. of Services Index, Oct: 55.6 vs 55.9 prev.

NZ: Food prices (m/m%), Oct: -1.1% vs -0.2 prev.

EC: ECB's President Draghi speaks in Brussels

Good Morning

Risk sentiment saw some improvement overnight with US equities showing modest gains and US yields a touch higher. The VIX fear index has pulled back under 11 for the first time in over a week. Currency movements have been generally subdued, with limited data on offer.

EUR has been on its own mini roller coaster at the start of the week following yesterday morning's news of a breakdown of coalition talks in Germany. Acting German Chancellor Angela Merkel declared the four-party discussions had failed. The pro-market Free Democratic Party walked out of the talks, saying that differences with the environmentalist Green party were too great to bridge.

From just under 1.1800 early yesterday morning, EUR/USD fell swiftly toward 1.1720, before rebounding all the way back, and even above 1.1800 in the early evening, as near term shorts were squeezed. Overnight, EUR selling returned. The German President, Steinmeier, urged parties to find a deal to avoid going back to the polls. Merkel said she prefers new elections over a minority government, but also that she is open to a grand coalition. It all clouds the near term EUR outlook.

Meanwhile, comments from ECB President Draghi to the EU Parliament did the EUR no favours stating 'despite a firm economic recovery, inflation dynamics have yet to show convincing signs of a self-sustained upward trend'. EUR/USD currently sits around 0.4% lower, at around 1.1750.

Elsewhere, currency movements were limited. JPY tried to push higher yesterday as risk sentiment was initially dented by German politics. USD/JPY briefly dipped below 112.00, but has pushed higher overnight as risk sentiment improved. USD/JPY opens this morning around 112.50. Combined with a weaker EUR, this saw the US dollar firmer with the DXY Index up around 0.4%. A US leading index rose 1.2% in October, supporting sentiment as it beat expectations of a 0.8% gain.

Commodity currencies remain generally out of favour as

oil prices slipped around 1%. AUD, CAD, and NOK have all started the week a little on the back foot against a firmer USD. AUD/USD is currently testing lows around 0.7550, despite a lift in iron ore prices.

NZD/USD did push up toward 0.6840 after the local close yesterday, but drifted back with USD strength overnight. NZD/USD currently sits around 0.6810, not far from this time yesterday. A weaker EUR has helped NZD/EUR recoup at least a small amount of last week's losses. NZD/EUR currently sits around 0.5800, up from last Friday's low of just under 0.5750. NZD/AUD is broadly unchanged at around 0.9020 and remains close to our short term fair value estimate.

There doesn't look to be much on the calendar to disturb markets in the day ahead. RBA Governor Lowe's speech tonight will be worth a look while some stabilisation in dairy auction prices overnight may offer a modicum of support to the NZD.

US 10-year Treasury yields initially dipped under 2.33% yesterday, on a mild risk off move associated with the German political developments. But any thoughts of testing the 200dma average around 2.305% evaporated as risk sentiment improved and equity markets pushed upwards. Yields rose overnight to currently sit just over 2.36%, up around 2bps on the day. The strong leading index reading helped push US 2-year Treasury yields up to a new cycle high of 1.75%, nearly 3bps higher and maintaining flattening pressure on the US curve.

In a relatively quiet session for local interest rates yesterday, the curve flattening pressure continued reflecting offshore moves. Long yields pushed lower than short term yields. NZ 5-year swap yields declined 1.5bps to just above 2.63% and 10-year swap yields closed 2 basis points lower at just over 3.12%. NZ 2-year swap yields finished marginally lower at just below 2.16%, as easy domestic liquidity factors continue to weigh.

Again there isn't much on the calendar for the day ahead to generate excitement. Today's RBA minutes are unlikely to add much to the body of knowledge, given the Statement on Monetary Policy has already been released. Tonight's speech from RBA Governor Lowe will be of most interest.

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Coming Up

	Period	Cons.	Prev.	NZT
AU	RBA Nov. Rate Meeting Minutes			13:30
AU	RBA Governor Lowe Gives Speech in Sydney			22:05
NZ	Dairy Auction Avg. Winning Price MT		3105	
US	Existing Home Sales	Oct	5.4	5.39 04:00

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	0.6811	+0.0	0.6805	0.6840	CHF	0.9918	+0.3		S&P 500	2,583	+0.2	18.4	Oil (Brent)	61.93	-1.3
AUD	0.7552	-0.2	0.7544	0.7574	SEK	8.475	+0.6		Dow	23,448	+0.4	24.3	Oil (WTI)	55.96	-1.0
EUR	1.1747	-0.4	1.1728	1.1809	NOK	8.285	+0.5		Nasdaq	6,786	+0.1	27.5	Gold	1275.9	-1.6
GBP	1.3230	+0.1	1.3198	1.3279	HKD	7.812	+0.0		Stoxx 50	3,561	+0.4	17.9	HRC steel	611.0	+0.0
JPY	112.57	+0.4	111.95	112.58	CNY	6.637	+0.2		FTSE	7,389	+0.1	9.1	CRB	188.8	-0.8
CAD	1.2786	+0.2			SGD	1.357	+0.1		DAX	13,059	+0.5	22.4	Wheat Chic.	438.8	-1.1
NZD/AUD	0.9019	+0.1			IDR	13,529	-0.0		CAC 40	5,340	+0.3	18.6	Sugar	14.97	-2.6
NZD/EUR	0.5798	+0.3			THB	32.83	-0.1		Nikkei	22,262	-0.6	23.0	Cotton	70.88	+1.5
NZD/GBP	0.5148	-0.2			KRW	1,101	+0.3		Shanghai	3,392	+0.3	5.4	Coffee	125.0	-1.8
NZD/JPY	76.67	+0.4			TWD	30.06	-0.1		ASX 200	5,946	-0.2	11.1	WM powder	2880.0	+0.0
NZD/CAD	0.8709	+0.1			PHP	50.74	-0.4		NZX 50	8,090	+0.3	18.1	Australian Futures		
NZ TWI	72.47	+0.2											3 year bond	98.03	-0.02
													10 year bond	97.41	-0.02
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		Last		
USD	1.25	1.44	1.91	2.36	USD	2.36	0.02	NZGB 3 04/15/20	1.98	-0.03	1 year	2.00	0.00		
AUD	1.50	1.72	1.92	2.77	AUD	2.54	-0.03	NZGB 6 05/15/21	2.12	-0.04	2 year	2.16	-0.00		
NZD	1.75	1.92	2.16	3.12	NZD	2.80	-0.07	NZGB 5 1/2 04/15/23	2.40	-0.05	5 year	2.63	-0.02		
EUR	0.00	0.06	-0.19	0.84	GER	0.36	0.00	NZGB 2 3/4 04/15/25	2.65	-0.05	7 year	2.87	-0.02		
GBP	0.50	0.53	0.84	1.34	GBP	1.29	-0.00	NZGB 4 1/2 04/15/27	2.80	-0.07	10 year	3.12	-0.02		
JPY	-0.05	-0.03	0.04	0.24	JPY	0.04	0.00	NZGB 3 1/2 04/14/33	3.16	-0.06	15 year	3.36	-0.02		
CAD	1.00	1.17	1.80	2.29	CAD	1.97	0.03	NZGB 2 3/4 04/15/37	3.37	-0.06					

* 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 07:11

Source: Bloomberg

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