

21 September 2017

## Events Round-Up

NZ: Current a/c bal (% of GDP), Q2: -2.8 vs. -3.1 exp.

UK: Retail sales ex auto fuel (m/m%), Aug: 1.0 vs. 0.1 exp.

US: Existing home sales ('000), Aug: 5.35 vs. 5.45 exp.

US: FOMC Fed Funds rate (%): 1-1.25 vs. 1-1.25 exp.

## Good Morning

The USD has strengthened and UST yields have risen after the Fed's latest policy statement. Against that backdrop the NZD and AUD have performed much better than other majors.

Market trading was quiet ahead of the FOMC statement at 6am this morning. Pre-release, the USD was at its low for the session, while the NZD and AUD were strong performers, up by about 1%. Yesterday afternoon, one of the major Australian banks upgraded its growth outlook and projected two RBA hikes next year. In NZ, the latest Colmar Brunton poll showed a jump in support for National at the expense on Labour, reversing Labour's lead in its previous two polls. These factors were supportive for the AUD and NZD respectively.

On the release of the FOMC, the NZD spiked to a high of 0.7433 and the AUD spiked to 0.8102, but both currencies have since plunged, as the FOMC statement supported the USD, with a more hawkish outlook than some expected.

The Statement was very similar to that of July, with the key addition that the trio of hurricanes will only have a temporary impact on the economy and doesn't change the medium term outlook. The likely boost to inflation will be temporary.

The dotplot of Fed Funds projections showed no change in the median through to the end of next year, still picking a hike by the end of this year and 3 hikes through 2018. This was despite a slightly lower projected inflation path. One less hike was projected for 2019 (down to 2 now) and the terminal median rate was reduced by 25bps to 2.75%. The new forecast for 2020 showed a further extension of the tightening cycle with another projected hike.

On balance sheet reduction (so-called quantitative tightening) there were no surprises. In October the FOMC will initiate the programme described in June, whereby \$10bn (maximum) of maturing Treasuries and mortgage-backed securities will not be reinvested, and that monthly

cap will rise throughout the next year towards \$50bn.

After being down 0.3% for the day, the USD majors index is now up 0.7%, with EUR taking the brunt, currently down 1.0% to 1.1880. USD/JPY is up 0.8% to 112.50 and GBP is down only 0.3% to 1.3465. Earlier in the session UK retail sales were much stronger than expected, giving GBP a boost. The market hasn't quite settled down yet as I write and Chair Yellen is still in the midst of her press conference, so these rates are bouncing around a bit.

The NZD is the only major that is still up for the day against the USD, currently sitting at 0.7335. The AUD is around 0.80 and NZD/AUD is up to around 0.9170. On the crosses, the biggest gain has been for NZD/EUR, up 1.2% to 0.6175.

US Treasury yields are up around 4-5bps across the curve, with the 10-year rate up 4bps to 2.28%. The probability of the Fed hiking in December according to the Fed Fund curve has nudged up further to 60%. The curve is about 5bps higher by the end of next year compared to yesterday, but the market remains sceptical that the Fed will be doing as much hiking next year as indicated – more like 1 hike next year rather than 3.

In other news, oil prices are up around 2% to reach their highest level since April (Brent) or May (WTI), to \$50.40 and \$56.20 respectively. This followed a report of US gasoline inventories falling to a 22-month low.

Yesterday, NZ rates continued to follow global rates higher, with the 2-year swap rate up 1bp to 2.25%, its highest close since mid-July, while the 10-year swap rate rose by 2bps to 3.28% its highest close since the beginning of August. More upside pressure can be expected today post-FOMC statement.

NZ Q2 GDP this morning is expected to show a result better (0.8% q/q) than the last couple of quarters, but not flash in the context of the Lions' tour and its recent mediocre run on a per capita basis.

The BoJ's meeting should pass with little market reaction as it keeps policy steady and meeting its inflation target remains a distant prospect. In Australia Governor Lowe's speech early this evening is on the "Next Chapter".

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Coming Up

	Period	Cons.	Prev.	NZT
NZ GDP (q/q%)	2Q	0.8	0.5	10:45
NZ Net migration	Aug		5800	10:45
NZ NZ plans to sell \$200m 2025 bonds				14:05
AU RBA Governor Lowe gives speech in Perth				17:10
JN BOJ 10-Yr yield target (%)		0.0	0.0	
US Philadelphia Fed business outlook	Sep	17.1	18.9	00:30
EC Consumer confidence	Sep A	-1.5	-1.5	02:00

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	0.7337	+0.3	0.7307	0.7433	CHF	0.9715	+0.9		S&P 500	2,503	-0.2	17.0	Oil (Brent)	56.20	+1.9
AUD	0.8004	-0.1	0.7986	0.8102	SEK	8.023	+0.9		Dow	22,370	-0.0	23.4	Oil (WTI)	50.41	+1.9
EUR	1.1878	-1.0	1.1862	1.2033	NOK	7.881	+1.1		Nasdaq	6,437	-0.4	22.8	Gold	1301.6	-0.4
GBP	1.3464	-0.3	1.3453	1.3657	HKD	7.801	-0.0		Stoxx 50	3,526	-0.2	18.9	HRC steel	620.0	+0.0
JPY	112.50	+0.8	111.12	112.41	CNY	6.575	-0.1		FTSE	7,272	-0.0	6.5	CRB	184.6	+1.1
CAD	1.2362	+0.6			SGD	1.351	+0.3		DAX	12,569	+0.1	20.9	Wheat Chic.	469.8	+1.6
NZD/AUD	0.9167	+0.3			IDR	13,282	+0.0		CAC 40	5,242	+0.0	19.4	Sugar	14.07	+2.3
NZD/EUR	0.6177	+1.2			THB	33.12	+0.2		Nikkei	20,310	+0.1	20.8	Cotton	70.04	-0.4
NZD/GBP	0.5449	+0.6			KRW	1,128	-0.3		Shanghai	3,366	+0.3	11.2	Coffee	136.6	+0.7
NZD/JPY	82.54	+1.1			TWD	30.14	+0.0		ASX 200	5,709	-0.1	6.9	W/M powder	3050.0	+0.5
NZ TWI	76.88	+0.7			PHP	50.99	-0.0		NZX 50	7,819	+0.7	7.4	<b>Australian Futures</b>		
										3 year bond			97.73	-0.05	
										10 year bond			97.10	-0.05	
Interest Rates							NZ Government Bonds				NZ Swap Yields				
	Rates		Swap Yields		Benchmark 10 Yr Bonds		Last			Last					
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day									
USD	1.25	1.33	1.70	2.24	USD	2.28	0.04	NZGB 3 04/15/20	2.14	0.01	1 year	2.04	0.01		
AUD	1.50	1.71	2.11	3.04	AUD	2.83	0.02	NZGB 6 05/15/21	2.30	0.02	2 year	2.25	0.01		
NZD	1.75	1.94	2.25	3.28	NZD	3.05	0.02	NZGB 5 1/2 04/15/23	2.62	0.03	5 year	2.79	0.03		
EUR	0.00	0.06	-0.18	0.87	GER	0.44	-0.01	NZGB 2 3/4 04/15/25	2.90	0.03	7 year	3.03	0.03		
GBP	0.25	0.33	0.80	1.39	GBP	1.34	0.01	NZGB 4 1/2 04/15/27	3.05	0.02	10 year	3.28	0.02		
JPY	-0.06	-0.03	0.03	0.24	JPY	0.03	-0.01	NZGB 3 1/2 04/14/33	3.40	0.02	15 year	3.54	0.02		
CAD	1.00	1.17	1.94	2.37	CAD	2.11	0.02	NZGB 2 3/4 04/15/37	3.62	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 07:06

Source: Bloomberg

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