

22 November 2017



Events Round-Up

AU: RBA Nov. Rate Meeting Minutes

AU: RBA Governor Lowe Speech in Sydney

NZ: Dairy Auction Avg. Price \$US/MT: 2970 vs 3105 prev.

US: Existing Home Sales, Oct: 5.48 vs 5.4 exp.

Good Morning

Yesterday's risk on tone extended overnight, as equities push onwards and upwards and the VIX fear index fell to a risk-loving level sub-10. The S&P500 poked just above 2,600 at one point for the first time and currently sits up around 0.7% on the day. European equities were up too, with the Euro Stoxx 50 closing up 0.5%. The DAX outperformed rising 0.8%, a sign markets are shrugging off the current German political impasse.

Currency movements have been modest in thin trading conditions. The US dollar is marginally lower, with the DXY Index down about 0.2% on the day but sitting comfortably within recent ranges. Reports of progress in the NAFTA trade negotiations across some sectors sent the Mexican Peso to the top of the leaderboard, with the MXN up 1.1% against the USD. The CAD rose a more measured 0.4%.

AUD remained under downwards pressure yesterday, with the RBA Minutes offering nothing new, but the currency found some support following last night's speech by RBA Governor Lowe. While acknowledging that the subdued outlook for inflation means there is no strong case from a near term adjustment to monetary policy, the Governor noted that 'if the economy continues to improve as expected, it is more likely that the next move in interest rates will be up, rather than down'. This arrested the AUD's recent decline. From just above 0.7530 before the speech, AUD/USD rose swiftly to 0.7580, a level which it has since oscillated around. Further support may come from what we think will be a very strong print in today's AU Construction Work Done figures helped by two major imported LNG facilities. But interest rate differentials are pulling the other way, indicated by the US 2-year swap rate pushing above its AU equivalent overnight.

NZD broadly followed the AUD higher after Lowe's speech. NZD/AUD briefly dipped under 0.9000, but recovered to currently sit little changed around 0.9010. This saw NZD/USD push up to around 0.6840 overnight, having dipped below 0.6800 yesterday. NZD/USD

currently sits around 0.4% higher than yesterday's local close, at around 0.6830. The NZD pushed higher despite another poor GDT dairy auction where average prices fell 3.4%. The latter reinforces downward pressure on Fonterra's current \$6.75 milk price forecast.

The mild bounce in the NZD sits more comfortably with the prevailing positive risk undertone and the fact that the recent NZD weakness has been a little difficult to explain. We wouldn't overplay it, but seasonality might be a factor in the NZD's recent lacklustre performance. NZD/USD has fallen in 9 of the last 10 Novembers. Historically, December is a much better month. NZD/USD support remains around 0.6780.

On the other crosses, the NZD is marginally higher against the GBP, EUR, and JPY. Despite the mild lift in the NZ TWI, it currently, at 72.55, sits more than 1% below that forecast by the RBNZ in its Monetary Policy Statement.

GBP has held onto recent gains on some confidence that the UK government will manage to agree a divorce bill with Europe. UK Chancellor Hammond announces his Budget on Wednesday as Brexit preparations and negotiations continue. Last weekend, Hammond suggested the government might be about to improve its offer on the Brexit divorce bill. GBP/USD traded a tight range overnight and sits unchanged around 1.3240, while 10-year gilts eased almost 2bps to just over 1.27%.

Long end bond yields generally eased a few bps across Europe overnight. ECB-inspired low European yields continue to hold back the longer end of the US Treasury curve. US 10-year Treasury yields are essentially unchanged at around 2.36%. Meanwhile, short end rates continue to push higher as the market firms up its expectations for Fed hikes. US 2-year Treasury yields rose around 2bps, seeing further US curve flattening.

Local yields initially pushed higher yesterday with bond yields closing 0.5 to 2.0bps higher across the curve, while swap yields close flat.

Looking to the day ahead, a Yellen (who confirmed yesterday that she will leave the Fed when her successor is sworn in) speech today and the FOMC Minutes are most notable. Today's NZ migration data are unlikely to cause any movement.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ Net Migration SA	Oct		5190	10:45
US Fed's Yellen Speaks at Stern Business School				12:00
UK U.K. Chancellor Presents Budget to Parliament				01:30
US Durable Goods Orders	Oct P	0.4	2	02:30
US Durables Ex Transportation	Oct P	0.5	0.7	02:30
EC Consumer Confidence	Nov A	-0.8	-1	04:00
US FOMC Meeting Minutes				08:00

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	0.6834	+0.4	0.6791	0.6841	CHF	0.9913	-0.2		S&P 500	2,599	+0.7	18.2		Oil (Brent)	62.30	+0.1
AUD	0.7582	+0.4	0.7533	0.7590	SEK	8.440	-0.5		Dow	23,612	+0.8	24.6		Oil (WTI)	56.67	+0.4
EUR	1.1742	+0.1	1.1713	1.1758	NOK	8.221	-0.8		Nasdaq	6,857	+1.0	27.7		Gold	1281.7	+0.5
GBP	1.3237	+0.0	1.3210	1.3267	HKD	7.812	+0.0		Stoxx 50	3,579	+0.5	18.0		HRC steel	611.0	+0.0
JPY	112.34	-0.2	112.18	112.60	CNY	6.629	-0.1		FTSE	7,411	+0.3	9.3		CRB	189.6	+0.2
CAD	1.2773	-0.4			SGD	1.354	-0.2		DAX	13,168	+0.8	23.2		Wheat Chic.	441.8	+0.7
NZD/AUD	0.9013	-0.1			IDR	13,529	-0.0		CAC 40	5,366	+1.1	18.5		Sugar	14.88	-0.5
NZD/EUR	0.5820	+0.3			THB	32.75	-0.2		Nikkei	22,416	+0.7	23.4		Cotton	70.72	-0.9
NZD/GBP	0.5163	+0.3			KRW	1,096	-0.4		Shanghai	3,410	+0.5	5.0		Coffee	126.7	+0.7
NZD/JPY	76.77	+0.1			TWD	30.05	-0.0		ASX 200	5,964	+0.3	10.2		WM powder	2875.0	-0.2
NZD/CAD	0.8729	+0.0			PHP	50.72	-0.0		NZX 50	8,088	-0.0	18.7		Australian Futures		
NZ TWI	72.56	+0.2												3 year bond	98.03	-0.01
														10 year bond	97.43	0.03
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	% Day	% Year		Last	% Day	% Year	
USD	1.25	1.45	1.94	2.36	USD	2.36	-0.01	NZGB 3 04/15/20	1.98	0.00		1 year	2.00	-0.00		
AUD	1.50	1.72	1.91	2.75	AUD	2.55	0.01	NZGB 6 05/15/21	2.12	0.00		2 year	2.16	-0.00		
NZD	1.75	1.92	2.16	3.12	NZD	2.82	0.02	NZGB 5 1/2 04/15/23	2.41	0.01		5 year	2.63	-0.00		
EUR	0.00	0.06	-0.19	0.81	GER	0.35	-0.01	NZGB 2 3/4 04/15/25	2.67	0.02		7 year	2.87	-0.00		
GBP	0.50	0.53	0.83	1.33	GBP	1.27	-0.02	NZGB 4 1/2 04/15/27	2.82	0.02		10 year	3.12	-0.00		
JPY	-0.05	-0.03	0.03	0.24	JPY	0.03	-0.01	NZGB 3 1/2 04/14/33	3.18	0.02		15 year	3.36	-0.00		
CAD	1.00	1.17	1.79	2.24	CAD	1.92	-0.04	NZGB 2 3/4 04/15/37	3.39	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 07:31

Source: Bloomberg

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