

22 September 2017

## Events Round-Up

NZ: GDP (q/q%), Q2: 0.8 vs. 0.8 exp.

NZ: Net migration, Aug: 5490 vs. 5750 prev.

JN: BOJ 10-Yr yield target (%), Sep: 0.0 vs. 0.0 exp.

US: Philly. Fed business outlook, Sep: 23.8 vs. 17.1 exp.

EC: Consumer confidence, Sep: -1.2 vs. -1.5 exp.

## Good Morning

The market has settled down after the FOMC's policy update yesterday. The AUD and NZD are weaker, while UST yields have traded in a tight range.

The Fed's fairly unchanged policy outlook and signal of the beginning of "quantitative tightening" didn't spook the equity market yesterday, with US equities showing a gain into the close but some of that has faded today and the S&P500 is down 0.2%. Meanwhile the VIX index has tracked lower and sits at 9.7, on its way towards showing its lowest average in a September month on record.

Currency markets have settled post FOMC and the USD has held onto a lot of its post-FOMC gains, with the TWI majors index down by less than 0.1% from yesterday's close.

The AUD is the worst performing major, down 1.2% to 0.7930. More than half of that fall followed a speech by RBA Governor Lowe. He reiterated that a rise in global interest rates "has no automatic implications" for Australia, and said a flexible currency gives the central bank "considerable independence regarding the timing as to when this might happen." In the Q&A, Governor Lowe downplayed the likelihood of a near term rate hike, stating "not for some time". Another chunky fall in iron ore prices hasn't helped the AUD. The Qingdao benchmark fell over 5% to around \$66, taking its month-to-date fall to 16%. Also last night, S&P cut its credit rating for China by one step from AA- to A+. This change simply catches up to moves by other ratings agencies some time ago, but it was a friendly reminder of the country's vulnerabilities to soaring debt levels.

There has been some spillover of a weak AUD into the NZD, which sees it testing the 0.7300 level. Most analysts thinking about the RBNZ's OCR review next week would probably assume that Lowe's comments apply to NZ as well. Under a new temporary Governor, the Bank's refrain that all year that "monetary policy will remain accommodative for a considerable period" is likely to remain unchanged. Before that we have an election to

negotiate tomorrow and the latest polls continue to show a tight race. The relatively weaker AUD sees NZD/AUD climb up through the 0.92 mark and there'll be further unwinding of its July-August plunge, if hard commodities continue to reverse their largely speculative run over that period.

At the other end of the currency leaderboard, GBP is up 0.6% to 1.3570. Investors are awaiting a key speech from PM May tonight that will lay out further details of her Brexit policy. Reports suggest that she has the full backing of her cabinet and that the UK is willing to pay €20bn during the Brexit transition period, but only if it has access to the single market and some form of customs union. EUR is up 0.3% to 1.1930, with support from data showing that euro-area consumer confidence rose to a 16-year high. The softer NZD sees NZD/GBP down 1.2% to 0.5385 and NZD/EUR down 1% to 0.6125.

The yen has largely tracked sideways since the unchanged BoJ policy announcement yesterday. The only surprise was that a new board member opposed the decision in his first meeting. Kataoka echoed the view of everyone outside the BoJ when he argued that there was little chance of reaching the BOJ's inflation target by the projected time frame of around fiscal 2019. While there was no mention of his policy prescription, he said the effects of the current yield curve program weren't strong enough.

After the 5bps increase in US 10-year rates post-FOMC, the market has range traded between 2.24-2.28% and currently sits flat at 2.27%. Implied market pricing of a Fed hike by December sits just above the 60% mark.

RBA Lowe's dovish speech has seen a 5-6bps rally in 3-year and 10-year Australian bond futures (ie, lower yields), unwinding some of the vicious price action seen in those contracts over the last couple of weeks. This could spill over into slightly lower NZ rates on the market open. There were only modest moves across the NZ yield curve yesterday, with the 2-year swap rate flat at 2.26% and the 10-year rate up 1bp to 3.29%.

Post-FOMC a number of Fed speakers hit the circuit from tonight, with Williams and George, ranked two of the most hawkish FOMC members according to Bloomberg's hawk-dove spectrometer, followed by the neutral Kaplan tomorrow morning. Ahead of that it should be a fairly lacklustre trading session in NZ ahead of tomorrow's election.

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Coming Up

	Period	Cons.	Prev.	NZT
GE Markit manufacturing PMI	Sep P	59.0	59.3	19:30
GE Markit services PMI	Sep P	53.7	53.5	19:30
EC Markit manufacturing PMI	Sep P	57.2	57.4	20:00
EC Markit services PMI	Sep P	54.8	54.7	20:00
US Fed's Williams speaks to media at Swiss National Bank event				22:00
CA CPI (y/y%)	Aug	1.5	1.2	00:30
CA CPI core-common (y/y%)	Aug		1.4	00:30
US Fed's George speaks at conference on outlook for oil				01:30
US Markit manufacturing PMI	Sep P	53.0	52.8	01:45
US Markit services PMI	Sep P	55.7	56.0	01:45
US Fed's Kaplan speaks at Fed oil conference				05:30

Source: Bloomberg, BNZ

Foreign Exchange						Equities				Commodities**				
Indicative overnight ranges (*)					Other FX		Major Indices				Price			
	Last	% Day	Low	High		Last	% Day				Last	Net Day		
NZD	0.7310	-0.6	0.7298	0.7334	CHF	0.9716	+0.2	S&P 500	2,504	-0.2	15.7	Oil (Brent)	56.43	+0.2
AUD	0.7931	-1.2	0.7917	0.8006	SEK	7.979	-0.4	Dow	22,369	-0.2	22.3	Oil (WTI)	50.63	-0.1
EUR	1.1932	+0.3	1.1877	1.1954	NOK	7.816	-0.6	Nasdaq	6,432	-0.4	21.5	Gold	1289.7	-1.7
GBP	1.3573	+0.6	1.3471	1.3587	HKD	7.806	+0.1	Stoxx 50	3,540	+0.4	18.7	HRC steel	620.0	+0.0
JPY	112.55	+0.3	112.14	112.72	CNY	6.590	+0.2	FTSE	7,264	-0.1	6.3	CRB	183.4	-0.7
CAD	1.2346	+0.2			SGD	1.351	+0.2	DAX	12,600	+0.2	20.7	Wheat Chic.	472.0	+0.5
NZD/AUD	0.9217	+0.6			IDR	13,339	+0.4	CAC 40	5,267	+0.4	19.5	Sugar	14.05	-0.1
NZD/EUR	0.6126	-1.0			THB	33.11	+0.0	Nikkei	20,347	+0.2	21.1	Cotton	69.04	-1.4
NZD/GBP	0.5386	-1.2			KRW	1,133	+0.4	Shanghai	3,358	-0.2	10.4	Coffee	135.0	-1.1
NZD/JPY	82.27	-0.3			TWD	30.22	+0.3	ASX 200	5,655	-0.9	5.2	WM powder	3060.0	+0.3
NZ TWI	76.67	-0.3			PHP	51.07	+0.2	NZX 50	7,795	-0.3	6.6	<b>Australian Futures</b>		
												3 year bond	97.8	0.01
												10 year bond	97.17	0.08
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	1.32	1.71	2.24	USD	2.27	0.01	NZGB 3 04/15/20	2.17	0.01	1 year	2.06	0.01	
AUD	1.50	1.72	2.05	2.97	AUD	2.83	0.00	NZGB 6 05/15/21	2.33	0.02	2 year	2.26	0.00	
NZD	1.75	1.95	2.26	3.29	NZD	3.05	-0.00	NZGB 5 1/2 04/15/23	2.64	0.03	5 year	2.80	0.01	
EUR	0.00	0.06	-0.17	0.89	GER	0.46	0.01	NZGB 2 3/4 04/15/25	2.91	0.01	7 year	3.05	0.02	
GBP	0.25	0.33	0.81	1.42	GBP	1.37	0.03	NZGB 4 1/2 04/15/27	3.05	0.01	10 year	3.29	0.01	
JPY	-0.06	-0.03	0.03	0.23	JPY	0.04	0.01	NZGB 3 1/2 04/14/33	3.40	-0.00	15 year	3.55	0.01	
CAD	1.00	1.17	1.94	2.38	CAD	2.12	0.01	NZGB 2 3/4 04/15/37	3.61	-0.00				

\* 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 06:56

Source: Bloomberg

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