

23 August 2017

## Events Round-Up

GE: ZEW survey expectations, Aug: 10.0 vs. 15.0 exp.

CA: Retail sales ex auto (m/m%), Jun: 0.7 vs. 0.1 exp.

## Good Morning

Amidst light trading volumes, risk sentiment has improved, seeing stronger equity markets, higher global bond yields and the USD reversing previous losses.

With no bad news in the headlines, we've seen a reversal of sorts of some of the recent price action. The key US and European stock market indices are up nearly 1% and the VIX index is back below 12. Traders report very light summer trading volumes and there have been few economic releases.

A positive report published on Politico has got some attention. The US political website reports that Trump's top aides and congressional leaders have made "significant strides in shaping a tax overhaul, moving far beyond the six-paragraph framework pushed out in July". There has been agreement to include a one-time low tax rate for US companies to bring back earnings from overseas and the article says there's a "broad consensus" on some of the best ways to cut individual and corporate tax rates. The USD has recently been significantly "oversold", with market pricing consistent with Trump's policy agenda not getting off the ground, so any positive news on tax reform should be clearly USD-supportive.

Even before that report was published, the USD was well on its way towards recovering the losses of the previous session. The various USD indices are up 0.4-0.5%, moving away from the key technical levels we mentioned yesterday.

The CAD has been the only major currency to hold its ground against the USD. Much stronger than expected Canada retail sales (ex auto) data helped support the case for further Bank of Canada rate hikes, with a 71% probability of another hike priced in by October. USD/CAD is flat at 1.2560.

The NZD is down 0.7% to 0.7275 and NZD/CAD is down the same to 0.9140, reaching its lowest level in over a year. The NZD is flat to down slightly on the other crosses. The AUD continues to outperform the NZD

amidst the backdrop of the ongoing rally in metal prices. Still, the 0.92 support level for NZD/AUD is managing to hold, but only just.

The only other economic release of note overnight was the ZEW index of German investor confidence falling by more than expected, down for the third consecutive month, reflecting the stronger euro and the widening scandal in the German auto sector. EUR was well on its way down before that release, reflecting the stronger USD, so the market impact was limited. EUR is down 0.5% to 1.1750 and NZD/EUR has nudged below the 0.62 mark.

US Treasury yields are higher given the improved risk appetite, seeing yields up 2-3bps across the curve for the session. The 10-year rate currently trades at its high for the day at 2.215%. The global economic calendar picks up a gear tonight, with a number of PMI releases and US new home sales. ECB President Draghi speaks in Germany tonight before heading off to the Jackson Hole symposium, which the market seems more fixated on.

There's little to say about NZ rates trading yesterday, with the swap and government curve little changed, with movements of 1bp or less. The government's pre-election economic and fiscal update will be released at noon today and will show a healthy set of accounts. The election campaign has already seen pork-barrel politics in action and projections of rising surpluses can only encourage more of the same.

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## Coming Up

	Period	Cons.	Prev.	NZT
NZ	Pre-election economic and fiscal update			12:00
EC	ECB's Draghi speaks in Lindau, Germany			19:00
GE	Markit manufacturing PMI	Aug P	57.6 58.1	19:30
GE	Markit services PMI	Aug P	53.3 53.1	19:30
EC	Markit manufacturing PMI	Aug P	56.3 56.6	20:00
EC	Markit services PMI	Aug P	55.4 55.4	20:00
US	Fed's Kaplan speaks in Midland, Texas			01:05
US	Markit manufacturing PMI	Aug P	53.5 53.3	01:45
US	Markit services PMI	Aug P	54.9 54.7	01:45
US	New home sales ('000)	Jul	610 610	02:00
EC	Consumer confidence	Aug A	-1.8 -1.7	02:00

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	0.7278	-0.7	0.7273	0.7327	CHF	0.9681	+0.6		S&P 500	2,451	+0.9	12.3	Oil (Brent)	51.88	+0.4	
AUD	0.7907	-0.4	0.7898	0.7947	SEK	8.101	+0.3		Dow	21,890	+0.9	18.1	Oil (WTI)	47.64	+0.6	
EUR	1.1755	-0.5	1.1745	1.1807	NOK	7.916	+0.3		Nasdaq	6,297	+1.3	20.1	Gold	1285.1	-0.4	
GBP	1.2826	-0.6	1.2811	1.2890	HKD	7.826	+0.0		Stoxx 50	3,456	+0.9	16.7	HRC steel	621.0	+0.0	
JPY	109.48	+0.5	109.14	109.55	CNY	6.662	-0.1		FTSE	7,382	+0.9	8.1	CRB	176.8	+0.1	
CAD	1.2560	+0.0			SGD	1.362	+0.1		DAX	12,229	+1.4	16.5	Wheat Chic.	429.0	-1.7	
NZD/AUD	0.9205	-0.3			IDR	13,344	-0.0		CAC 40	5,132	+0.1	16.9	Sugar	13.51	-0.1	
NZD/EUR	0.6191	-0.2			THB	33.25	+0.0		Nikkei	19,384	-0.0	17.5	Cotton	68.88	+0.5	
NZD/GBP	0.5674	-0.1			KRW	1,134	-0.5		Shanghai	3,290	+0.1	6.5	Coffee	129.1	-0.8	
NZD/JPY	79.68	-0.2			TWD	30.30	-0.1		ASX 200	5,750	+0.4	3.5	WM powder	3240.0	+0.0	
NZ TWI	76.84	-0.5			PHP	51.23	-0.4		NZX 50	7,867	-0.0	5.4	<b>Australian Futures</b>			
														3 year bond	98	-0.02
														10 year bond	97.34	-0.04
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				
USD	1.25	1.31	1.58	2.16	USD	2.21	0.03	NZGB 3 04/15/20	2.04	0.01		1 year	2.01	-0.00		
AUD	1.50	1.71	1.93	2.83	AUD	2.65	0.01	NZGB 6 05/15/21	2.18	0.01		2 year	2.18	0.01		
NZD	1.75	1.95	2.18	3.15	NZD	2.88	0.01	NZGB 5 1/2 04/15/23	2.47	0.01		5 year	2.65	0.00		
EUR	0.00	0.06	-0.18	0.82	GER	0.40	0.00	NZGB 2 3/4 04/15/25	2.73	0.01		7 year	2.90	0.00		
GBP	0.25	0.28	0.56	1.17	GBP	1.09	0.02	NZGB 4 1/2 04/15/27	2.88	0.01		10 year	3.15	0.00		
JPY	-0.05	-0.03	0.02	0.22	JPY	0.04	0.01	NZGB 3 1/2 04/14/33	3.25	0.01		15 year	3.41	0.01		
CAD	0.75	1.17	1.60	2.17	CAD	1.92	0.04	NZGB 2 3/4 04/15/37	3.50	0.01						

\* 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 06:45

Source: Bloomberg

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