

23 November 2017



Events Round-Up

- NZ: Net migration, Oct: 5580 vs. 5220 prev.
- US: Durable goods orders, Oct: -1.2 vs. 0.3 exp.
- US: Durables ex trans., Oct: 0.4 vs. 0.5 exp.
- US: U. of Michigan cons. sent., Nov: 98.5 vs. 98.0 exp.
- EC: Consumer Confidence, Nov: 0.1 vs. -0.8 exp.

Good Morning

In light trading ahead of the US Thanksgiving holiday, the USD has struggled and is the biggest loser. US equities are flat around record highs while UST yields are down slightly.

The USD has trended lower all through November and we saw another bout of weakness after some dovish comments by Yellen hit the screens yesterday afternoon. She noted that tightening too quickly risked stranding inflation below the Fed's 2% target, and there has been "some hint" expectations for future price increases may be drifting down. The USD indices are down around 0.5% for the day.

Yellen's comments have had some impact on the yield curve, with slightly more downward pressure at the short-end of the curve than the long-end, a change from the recent trend. A rate hike for December remains well priced at close to a 90% chance, albeit down slightly. For the Treasury curve, the 2-year Treasury rate is down 3bps to 1.74% while the 10-year rate is down 2bps to 2.33%. Durable goods orders were softer than expected but excluding the volatile transportation group were broadly in line. The minutes of the FOMC's November meeting are due at 8am but shouldn't cause any more than a transitory impact on pricing.

The softer USD has helped lift the NZD up to 0.6860 and it has managed to hold its ground on all the key major crosses other than against the stronger JPY. That's a good result considering the fourth successive weak GDT dairy auction in the previous session – perhaps a sign that selling pressure in the NZD has largely been exhausted, with recent data showing speculative positioning now fairly stretched to the short-side. BNZ's expectation for retail sales data for Q3 later this morning is much weaker than the consensus estimate (-1.0% vs +0.1%), but driven more by technical factors than any nascent weakness in spending. Nevertheless, there's potential for some temporary "sticker shock" if the data underwhelms.

EUR met some resistance just under 1.18 but the general vibe is quite positive as pressure is mounting on Germany's Social Democrats to join Merkel in a revived grand coalition and avoid another election. This might be an attractive option for the SPD party as another election could see its support fall even further. Since the local close yesterday, NZD/EUR has oscillated closely around 0.5815.

GBP/USD started to slip as Hammond delivered the UK Budget. Economic growth forecasts were slashed alongside productivity growth estimates, seeing the UK economy grow in a 1-1½% range over the foreseeable future as Brexit risks cloud the future, a poor performance amidst the strongest global economic conditions since the GFC. A weaker growth outlook provided little scope for any major policy initiatives. The blip down in GBP proved temporary, with weaker USD forces taking over, seeing a push towards the 1.33 mark. NZD/GBP is steady around 0.5160.

JPY has been the strongest major currency, for no fundamental reason, with flows and technical factors in the driving seat. USD/JPY broke down through its 200-day moving average and currently sits at its lowest level in 2-months at 111.55. NZD/JPY sits around 76.5.

NZD/AUD is slightly stronger overnight but continues to track in familiar territory and trades this morning close to 0.9040.

The NZ bond market continues to be well supported, with the 10-year rate down 3bps to 2.79% and the spread to US 10-year Treasuries back below 50bps, supported by narrowing spreads at the short end of the curve. The DMO tenders \$150m of 2033 bonds today and given the lack of recent issuance it should go well.

Once the FOMC minutes and NZ retail sales data are out of the way this morning then the rest of the week should be quiet with the US holiday.

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Coming Up

	Period	Cons.	Prev.	NZT
US FOMC meeting minutes				08:00
NZ Real retail sales (q/q%)	Q3	0.1	2.0	10:45
NZ NZ plans to sell \$150m 2033 bonds				14:05
GE Markit manufacturing PMI	Nov P	60.4	60.6	21:30
GE Markit Services PMI	Nov P	55.0	54.7	21:30
EC Markit manufacturing PMI	Nov P	58.2	58.5	22:00
EC Markit services PMI	Nov P	55.2	55	22:00
UK GDP (q/q%)	Q3	0.4	0.4	22:30

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	0.6856	+0.4	0.6820	0.6863	CHF	0.9831	-0.8			S&P 500	2,597	-0.1	17.9	Oil (Brent)	62.96	+0.6
AUD	0.7588	+0.1	0.7555	0.7597	SEK	8.355	-0.9			Dow	23,515	-0.3	23.6	Oil (WTI)	57.69	+1.5
EUR	1.1793	+0.5	1.1736	1.1798	NOK	8.179	-0.4			Nasdaq	6,864	+0.0	27.4	Gold	1290.8	+0.7
GBP	1.3293	+0.4	1.3214	1.3300	HKD	7.812	+0.0			Stoxx 50	3,563	-0.5	17.0	HRC steel	611.0	+0.0
JPY	111.55	-0.8	111.51	112.30	CNY	6.610	-0.3			FTSE	7,419	+0.1	8.8	CRB	191.4	+0.9
CAD	1.2733	-0.4			SGD	1.349	-0.4			DAX	13,015	-1.2	21.5	Wheat Chic.	442.3	+0.2
NZD/AUD	0.9035	+0.3			IDR	13,523	-0.0			CAC 40	5,353	+0.6	17.7	Sugar	15.24	+2.8
NZD/EUR	0.5814	-0.1			THB	32.71	-0.2			Nikkei	22,523	+0.5	24.0	Cotton	71.95	+2.1
NZD/GBP	0.5158	-0.0			KRW	1,089	-0.6			Shanghai	3,430	+0.6	5.6	Coffee	127.4	+0.5
NZD/JPY	76.48	-0.4			TWD	29.94	-0.3			ASX 200	5,986	+0.4	10.6	WM powder	2800.0	-2.6
NZD/CAD	0.8730	+0.0			PHP	50.61	-0.2			NZX 50	8,105	+0.2	18.9	Australian Futures		
NZ TWI	72.62	+0.1												3 year bond	98.05	0.01
														10 year bond	97.47	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	1.45	1.92	2.33	USD	2.33	-0.02	NZGB 3 04/15/20	1.96	-0.02	1 year	2.00	-0.00
AUD	1.50	1.73	1.89	2.73	AUD	2.52	-0.02	NZGB 6 05/15/21	2.10	-0.02	2 year	2.15	-0.00
NZD	1.75	1.92	2.15	3.11	NZD	2.79	-0.03	NZGB 5 1/2 04/15/23	2.38	-0.03	5 year	2.61	-0.02
EUR	0.00	0.06	-0.19	0.81	GER	0.35	-0.00	NZGB 2 3/4 04/15/25	2.64	-0.03	7 year	2.85	-0.02
GBP	0.50	0.52	0.82	1.33	GBP	1.28	0.00	NZGB 4 1/2 04/15/27	2.79	-0.03	10 year	3.11	-0.01
JPY	-0.05	-0.04	0.04	0.25	JPY	0.03	-0.01	NZGB 3 1/2 04/14/33	3.16	-0.03	15 year	3.34	-0.01
CAD	1.00	1.17	1.78	2.22	CAD	1.90	-0.02	NZGB 2 3/4 04/15/37	3.37	-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 06:51

Source: Bloomberg

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