

24 November 2017



Events Round-Up

- NZ: Real retail sales (q/q%), Q3: 0.2 vs. 0.1 exp.
- GE: Markit manufacturing PMI, Nov: 62.5 vs. 60.4 exp.
- GE: Markit Services PMI, Nov: 54.9 vs. 55.0 exp.
- EC: Markit manufacturing PMI, Nov: 60.0 vs. 58.2 exp.
- EC: Markit services PMI, Nov: 56.2 vs. 55.2 exp.
- CA: Retail sales (m/m%), Sep: 0.1 vs .1.0 exp.
- UK: GDP (q/q%), Q3: 0.4 vs. 0.4 exp.

Good Morning

The USD has sustained the fall seen post the FOMC minutes yesterday. Overnight moves have been small, with US markets closed for the Thanksgiving holiday.

Soon after we went to print yesterday, the FOMC's minutes of its last meeting were interpreted as slightly dovish, seeing the USD come under pressure and UST yields nudge lower. A December rate hike remained on track and "nearly all" Fed officials reaffirmed support for gradual hikes. But there were some mixed views on the inflation outlook including the comment that "many officials observed that low inflation might reflect not only transitory factors, but also the influence of developments that could prove more persistent". These minutes followed on from Yellen's dovish comment a day earlier and sent the USD lower, although the fall has been modest. The USD TWI majors index is down 0.3% since the FOMC minutes with much of that move seen within the first hour of release.

The weaker USD saw the NZD push higher, peaking at 0.6905 overnight where it met some resistance and it currently sits at 0.6885. NZ Q3 retail sales data came in close to market expectations, avoiding the possible pothole that BNZ's economists saw. The small gain should be seen in the context of an over-inflated Q2 result, boosted by sporting events like the Lions Tours. That the high level of sales was sustained supported the picture of a strong retail spending backdrop.

The soft USD has seen EUR push up to the 1.1850 mark, supported by a strong set of PMIs in the euro-area, with some indicators at their highest level in a decade. Furthermore, Germany political risk is fading by the day, with Bloomberg reporting that Germany's biggest opposition party, SPD, is read to begin talks with Merkel to form a government, a so-called grand coalition.

It's fair to say that the euro area economy is booming, making you wonder why the ECB still feels the need to keep interest rates suppressed for almost another year. If the ECB won't do the work then the EUR will do the ECB's job for it, so we remain bullish on the outlook for the common currency. NZD/EUR has traded flat in a narrow 0.5810-0.5830 range over the past 24 hours.

CAD and GBP have been on the soft side. Canada retail sales were way below expectations, pushing USD/CAD up from 1.2675 to 1.2720 and NZD/CAD is up through 0.8750. A pall of economic gloom overhangs GBP, with the Resolution Foundation analysing the OBR's economic and fiscal outlook and concluding that the UK faces the longest fall in living standards since records began 60 years ago. The second estimate of Q3 GDP remained unrevised at 0.4% q/q, confirming that economy was on a weaker path compared to the trend before the Brexit vote. GBP is flat at 1.33 while NZD/GBP is modestly higher at 0.5180.

Iron ore prices continue to recover, adding nearly 4% yesterday and taking the cumulative gain for November to around 16%. The AUD hasn't really reacted to this positive move. It has pushed up to 0.7630, but that reflects the weaker USD dynamic and NZD/AUD has traded flat around the 0.9030 mark. Since the 5-yearly Communist Party plenum, China has been in the spotlight. The last 45mins of trading yesterday saw a plunge in China's stockmarket, taking the CSI300 down 3%. China's bond yields have been rising over the past couple of months, with the 10-year rate heading towards the 4% mark. It's too early to get all bearish but it's a trend we're monitoring closely, with both the NZD and AUD highly vulnerable if China's debt bubble looks like unravelling.

NZ's yield curve saw some slight downward pressure on rates, a reflection of slightly lower UST yields during the session. The 2-year swap rate was flat at 2.15% while the 10-year rate fell by 2bps to 3.09%. The day ahead should be quiet with US investors and traders still in holiday mode.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ Trade balance (\$m)	Oct	-760	-1143	10:45
GE IFO expectations	Nov	108.8	109.1	22:00
US Markit manufacturing PMI	Nov P	55.0	54.6	03:45

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	0.6887	+0.1	0.6874	0.6905	CHF	0.9816	-0.0	S&P 500	2,597	-0.1	17.8	Oil (Brent)	63.41	+0.1
AUD	0.7629	+0.2	0.7609	0.7639	SEK	8.292	-0.6	Dow	23,526	-0.3	23.3	Oil (WTI)	58.43	+0.7
EUR	1.1852	+0.3	1.1824	1.1856	NOK	8.130	-0.3	Nasdaq	6,867	+0.1	27.6	Gold	1290.9	-0.1
GBP	1.3301	-0.2	1.3285	1.3332	HKD	7.811	+0.0	Stoxx 50	3,572	+0.3	17.8	HRC steel	611.0	+0.0
JPY	111.18	-0.0	111.11	111.36	CNY	6.584	-0.4	FTSE	7,417	-0.0	8.8	CRB	191.6	+0.9
CAD	1.2713	+0.1			SGD	1.345	-0.1	DAX	13,009	-0.0	22.0	Wheat Chic.	440.8	-0.1
NZD/AUD	0.9027	-0.1			IDR	13,511	-0.1	CAC 40	5,380	-0.2	18.8	Sugar	15.28	+2.7
NZD/EUR	0.5811	-0.2			THB	32.66	-0.1	Nikkei	22,523	+0.5	24.0	Cotton	70.74	-0.2
NZD/GBP	0.5178	+0.3			KRW	1,086	-0.3	Shanghai	3,352	-2.3	3.4	Coffee	127.0	+0.3
NZD/JPY	76.57	+0.0			TWD	29.97	+0.1	ASX 200	5,986	-0.0	9.1	WM powder	2840.0	+1.4
NZD/CAD	0.8755	+0.2			PHP	50.62	+0.0	NZX 50	8,102	-0.0	17.7	Australian Futures		
NZ TWI	72.73	-0.1										3 year bond	98.07	0.01
												10 year bond	97.48	0.00
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		Last		
USD	1.25	1.46	1.91	2.32	USD	2.32	0.00	NZGB 3 04/15/20	1.95	-0.02	1 year	1.99	-0.00	
AUD	1.50	1.73	1.88	2.71	AUD	2.51	-0.02	NZGB 6 05/15/21	2.08	-0.02	2 year	2.15	0.00	
NZD	1.75	1.91	2.15	3.09	NZD	2.78	-0.01	NZGB 5 1/2 04/15/23	2.37	-0.01	5 year	2.60	-0.01	
EUR	0.00	0.06	-0.19	0.81	GER	0.35	-0.00	NZGB 2 3/4 04/15/25	2.63	-0.01	7 year	2.84	-0.02	
GBP	0.50	0.52	0.82	1.32	GBP	1.25	-0.03	NZGB 4 1/2 04/15/27	2.78	-0.01	10 year	3.09	-0.02	
JPY	-0.05	-0.03	0.03	0.25	JPY	0.03	0.00	NZGB 3 1/2 04/14/33	3.16	0.00	15 year	3.33	-0.02	
CAD	1.00	1.17	1.75	2.21	CAD	1.90	-0.01	NZGB 2 3/4 04/15/37	3.37	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 06:50

Source: Bloomberg

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