

25 September 2017

## Events Round-Up

GE: Markit manufacturing PMI, Sep P: 60.6 vs. 59.0 exp.

GE: Markit services PMI, Sep P: 55.6 vs. 53.7 exp.

EC: Markit manufacturing PMI, Sep P: 58.2 vs. 57.2 exp.

EC: Markit services PMI, Sep P: 55.6 vs. 54.8 exp.

CA: CPI (y/y%), Aug: 1.4 vs. 1.5 exp.

CA: CPI core-common (y/y%), Aug: 1.5 vs. 1.4 prev.

US: Markit manufacturing PMI, Sep P: 53.0 vs. 53.0 exp.

US: Markit services PMI, Sep P: 55.1 vs. 55.8 exp.

## Good Morning

With daylight savings, the FX market doesn't open until 8am this morning. The NZD had a decent run after the local close on Friday, which should limit any positive reaction for the NZD to Saturday's election.

The election has been and gone and we are all none the wiser who will form the next government. The polls proved to be correct, with NZ First in the box seat to decide the next Prime Minister. At the margin, National's election night tally was slightly higher and Labour's slight lower than recent but special votes (15% of total votes cast) are likely to nudge the final result closer to the pre-election polls, making the outcome "as expected". The six most obvious pre-election coalition permutations can now be whittled down to three. Importantly, the least market-friendly outcome of a Labour-Greens majority government is not mathematically possible so the market will take that as a positive outcome. We are unlikely to know the form of the next government until after special votes are counted on 7 October.

On Friday night, the NZD recovered its losses of the local trading session after North Korea was in the headlines again. North Korea's Foreign Minister Ri Yong Ho said that the "highest level of hard-line" countermeasures which Kim Jong Un mentioned in a statement could refer to a "strongest-ever" hydrogen bomb detonation in the Pacific. After closing the local session around 0.7285, the NZD piled on about 0.7% to finish the NY session just under 0.7340.

The EUR was well supported after a series of very strong PMI readings for the euro-area, but selling pressure emerged above 1.20 and it finished the day flat around 1.1950. In Germany's elections yesterday, Merkel is in the best position to form a government, but support for her party and fellow coalition party fell to historical lows, while

the anti-immigration far-right party entered Parliament for the first time, so not a particularly market-friendly result.

GBP was the weakest of the majors, as PM May delivered an important Brexit speech. She said the UK would pay a €20bn down-payment towards what is likely to be an even higher an exit bill. She was also looking for around a two-year transition period after Brexit through to 2021 that avoids the cliff-edge scenario. There was a lack of detail and nothing fresh to excite the market too much. After the speech, Moody's downgraded the UK's credit rating by one notch to Aa2, meeting the already-downgraded ratings of S&P and Fitch. GBP fell to around 1.3450, before ending the session around 1.35.

Fed FOMC members began their usual post-meeting prognostications in a series of speeches that kicks up another gear this week. George was her usually hawkish self in proclaiming that she felt recent weak inflation was no reason for the Fed to back away from a continued gradual pace of rate increases and "...we do have to keep moving". Williams noted he was in a one more hike this year and 3 next year camp and picked a "new normal" Fed Funds rate of 2.5%. Kaplan said that he remains "open-minded" on a December rate increase but remains concerned current weak inflation may be the result of hard-to-counter structural trends.

None of these speakers had an impact on the market. The greater force on US 10-year yields was the risk-off mode after North Korean headlines during NZ trading hours. The 10-year rate fell from 2.28% to 2.25% and hovered around that level during the overnight session. This price action flowed through into the local rates market, which saw the 2-year swap rate close down 3bps to 2.23% and the 10-year rate down 5bps to 3.24%. These falls also reflected some catch-up to Australian rate futures in the previous night's session, after RBA Lowe's hosing down of rate hike expectations in his late-Thursday speech.

The prospect of NZ First holding the balance of power in any coalition government suggests a likely easier fiscal policy track and higher government debt levels relative to National or Labour's pre-election projections. It's too early to jump to conclusions but in a reasonably fully employed economy, that adds to inflationary pressure and an earlier RBNZ tightening than the Bank has previously indicated (late 2019), but the market has priced this outlook anyway. So overall, we see little implication for the market from the election result, relative to expectations.

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## Coming Up

	Period	Cons.	Prev.	NZT
GE IFO Expectations	Sep		107.9	21:00
GE IFO Current Assessment	Sep		124.6	21:00
US Fed's Dudley Speaks on Workforce Development				01:30
EC ECB President Draghi speaks in Brussels				02:00
US Fed's Evans Speaks on Economy and Monetary Policy				05:40

Source: Bloomberg, BNZ

Foreign Exchange					Equities				Commodities**						
Indicative overnight ranges (*)					Other FX				Major Indices			Price			
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day				
NZD	0.7338	+0.3	0.7280	0.7344	CHF	0.9693	-0.1		S&P 500	2,502	+0.1	15.6	Oil (Brent)	56.86	+0.8
AUD	0.7962	+0.4	0.7923	0.7986	SEK	7.983	+0.1		Dow	22,350	-0.0	22.4	Oil (WTI)	50.66	+0.2
EUR	1.1951	+0.1	1.1937	1.2004	NOK	7.801	-0.0		Nasdaq	6,427	+0.1	21.1	Gold	1293.3	+0.2
GBP	1.3504	-0.6	1.3488	1.3596	HKD	7.809	+0.1		Stoxx 50	3,541	+0.1	16.8	HRC steel	620.0	+0.0
JPY	111.99	-0.4	111.80	112.17	CNY	6.590	-0.0		FTSE	7,311	+0.6	5.8	CRB	183.6	+0.1
CAD	1.2339	+0.1			SGD	1.346	-0.3		DAX	12,592	-0.1	18.5	Wheat Chic.	469.5	-0.5
NZD/AUD	0.9216	+0.0			IDR	13,312	-0.2		CAC 40	5,281	+0.3	17.7	Sugar	13.98	-0.5
NZD/EUR	0.6140	+0.4			THB	33.09	-0.1		Nikkei	20,296	-0.3	21.1	Cotton	69.09	+0.1
NZD/GBP	0.5434	+1.1			KRW	1,137	+0.3		Shanghai	3,353	-0.2	10.5	Coffee	134.5	-0.4
NZD/JPY	82.18	-0.2			TWD	30.17	-0.2		ASX 200	5,682	+0.5	4.6	WM powder	3085.0	+0.8
NZD/CAD	0.9054	+0.4			PHP	50.67	-0.8		NZX 50	7,815	+0.2	7.1	<b>Australian Futures</b>		
NZ TWI	76.81	+0.2											3 year bond	97.8	0.01
<b>Interest Rates</b>					<b>Benchmark 10 Yr Bonds</b>				<b>NZ Government Bonds</b>			<b>NZ Swap Yields</b>			
	<b>Rates</b>				<b>Swap Yields</b>				<b>Last</b>			<b>Last</b>			
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day								
USD	1.25	1.33	1.70	2.22	USD	2.25	-0.03	NZGB 3 04/15/20	2.14	-0.02	1 year	2.04	-0.02		
AUD	1.50	1.72	2.05	2.97	AUD	2.79	-0.04	NZGB 6 05/15/21	2.30	-0.02	2 year	2.23	-0.03		
NZD	1.75	1.96	2.23	3.24	NZD	3.01	-0.04	NZGB 5 1/2 04/15/23	2.60	-0.04	5 year	2.75	-0.05		
EUR	0.00	0.06	-0.17	0.89	GER	0.45	-0.01	NZGB 2 3/4 04/15/25	2.87	-0.03	7 year	2.99	-0.05		
GBP	0.25	0.33	0.80	1.40	GBP	1.36	-0.01	NZGB 4 1/2 04/15/27	3.01	-0.04	10 year	3.24	-0.05		
JPY	-0.05	-0.03	0.03	0.23	JPY	0.03	-0.01	NZGB 3 1/2 04/14/33	3.35	-0.04	15 year	3.48	-0.06		
CAD	1.00	1.17	1.96	2.38	CAD	2.11	-0.01	NZGB 2 3/4 04/15/37	3.56	-0.04					

\* 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: NY close Sat morning

Source: Bloomberg

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