

26 October 2017

## Events Round-Up

AU: CPI (y/y%), Q3: 1.8 vs. 2.0 exp.  
AU: CPI trimmed mean (y/y%), Q3: 1.8 vs. 2.0 exp.  
GE: IFO expectations, Oct: 109.1 vs. 107.3 exp.  
UK: GDP (q/q%), Q3: 0.4 vs. 0.3 exp.  
US: Durable goods orders (m/m%), Sep: 2.2 vs. 1.0 exp.  
US: Durables ex transportation, Sep: 0.7 vs. 0.5 exp.  
CA: Bank of Canada rate decision, Oct: 1.0 vs. 1.0 exp.  
US: New home sales, Sep: 667 vs. 555 exp.

## Good Morning

There's been plenty of information flow and some decent price action across asset markets in the past 24 hours. At last, back to the good old days. For a change, the NZD has been out of the spotlight, seeing it more mixed on the crosses, against a backdrop of weaker global equity markets and higher global rates.

The NZD continues along its weaker trend, but price action has been more variable as other currencies hit the spotlight. The allocation of Ministerial portfolios for the new government didn't throw up any surprises and just highlighted how the minor parties had significantly over-achieved in allocations relative to their vote. NZD/USD is down to around 0.6875, only about 10pips below the level signed off this time yesterday, against a backdrop of stronger US data on durable goods orders and home sales, the latter surging to a 10-year high. Trump's public spats with Senators don't provide much confidence that his tax reform package will see the light of day, holding back USD performance, while the market remains on edge as we await Trump's selection for the next Fed Chair.

The NZD is up against the AUD and CAD to 0.8935 and 0.8805 respectively. Yesterday, Australian Q3 CPI data came in below market expectations, triggering a weaker AUD and lower rates, as enthusiasm for the RBA to join the tightening brigade waned. AUD is trading sub-0.77 this morning for the first time since July. The Bank of Canada held rates steady after back-to-back increases, as expected, and warned that it would remain "cautious" when considering future rate increases. Governor Poloz said that every meeting is a "live" meeting and called the Bank's approach "fundamentally data dependent". Market pricing now suggests that the odds are tipped for the next rate to come early next year, rather than December.

UK Q3 GDP growth was 0.1 percentage points higher than

expected, but that was enough to cement in expectations that the BoE would hike rates next month, joining the growing set of central banks that have kicked off a tightening cycle. That was enough to push UK 10-year rates up 5bps to an 8-month high of 1.40% and lift GBP by nearly 1% to 1.3250. NZD/GBP has moved sub-0.52 for the first time since last year's Brexit referendum (ignoring the GBP flash-crash in November).

EUR was supported by Germany's IFO business confidence indicators reaching all-time highs and has also been bid up ahead of the ECB's important meeting tonight. It is back up through 1.18 and this sees NZD/EUR down to 0.5820, a 20-month low. The market expects the ECB to announce its plans for a tapering of asset purchases from next year, halving current purchases from the current €60b per month pace and extending the program through to June-September 2018. With rates not to be increased until well after the end of the programme, the EUR will be sensitive to the end-point of programme.

JPY has ebbed and flowed alongside US Treasury yields. Higher European yields and the stronger durable goods orders data saw the US 10-year rate blast up to as high as 2.47%, before falling back down to the current 2.44%. With the key technical level of 2.40% now convincingly broken, the technicians will be eyeing up the YTD highs just above the 2.60% mark as the next area of resistance. USD/JPY rose to as high as 114.24 as US rates peaked, and has since settled around 113.70. NZD/JPY is down to 78.2.

The NZ swap curve showed little movement yesterday, after being pulled by opposing forces, higher US rates and lower Australian rates. The 2-year rate was flat at 2.17% while the 10-year rate was up 1bp to 3.21%. NZ inflation-linked bonds remain the stand-out performer since the new government was formed, as the market prices in a higher longer-term inflation environment. Implied break-even inflation expectations for the 2030 bond have risen by 26bps to 1.48% over the last week and a bit.

There was a good article on Bloomberg published this morning titled "Even in its birthplace strict inflation target loses luster", referring to NZ's imminent reform of the RBNZ Act. Moving away from strict inflation targeting is becoming more widely accepted as the best course of action. This view was supported by an article published overnight by the Center for Economic Policy Research. The authors argue that in general, keeping maximum discretion should be a good rule of the thumb for any central bank to follow in the current day and age. The optimal inflation target may differ across countries and

could evolve over time depending on a number of factors, including the scale of the damage inflicted by the crisis on the employment and wages. Central banks should establish a process of reviewing their goals, say, every five or ten years.

It seems then, that academic research supports an evolution in the way the RBNZ runs monetary policy and makes us wonder why the market seems concerned about reform of the RBNZ Act?

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Coming Up

		Period	Cons.	Prev.	NZT
NZ	Trade balance (\$m)	Sep	-900	-1235	10:45
GE	GfK consumer confidence	Nov	10.8	10.8	19:00
EC	ECB deposit facility rate		-0.4	-0.4	00:45
US	Advance goods trade bal. (\$b)	Sep	-64.0	-63.3	01:30
US	Pending home sales (m/m%)	Sep	0.3	-2.6	03:00

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	0.6871	-0.6	0.6861	0.6906	CHF	0.9890	-0.2	S&P 500	2,553	-0.6	19.1	Oil (Brent)	58.15	-0.3
AUD	0.7692	-1.1	0.7690	0.7726	SEK	8.227	+0.1	Dow	23,318	-0.5	28.3	Oil (WTI)	52.04	-0.9
EUR	1.1807	+0.4	1.1754	1.1818	NOK	8.029	+0.3	Nasdaq	6,556	-0.6	24.1	Gold	1275.4	-0.3
GBP	1.3246	+0.9	1.3110	1.3272	HKD	7.804	-0.0	Stoxx 50	3,591	-0.5	16.3	HRC steel	605.0	-0.7
JPY	113.78	-0.1	113.48	114.24	CNY	6.639	+0.0	FTSE	7,447	-1.1	6.1	CRB	185.2	-0.3
CAD	1.2813	+1.1			SGD	1.361	-0.1	DAX	12,953	-0.5	20.4	Wheat Chic.	453.3	-0.6
NZD/AUD	0.8933	+0.6			IDR	13,578	+0.3	CAC 40	5,375	-1.1	18.4	Sugar	14.18	-0.5
NZD/EUR	0.5819	-0.9			THB	33.19	-0.0	Nikkei	21,708	-0.4	24.8	Cotton	69.69	+0.2
NZD/GBP	0.5187	-1.3			KRW	1,128	+0.0	Shanghai	3,397	+0.3	9.0	Coffee	124.1	+0.6
NZD/JPY	78.18	-0.6			TWD	30.27	+0.0	ASX 200	5,906	+0.1	10.2	WM powder	2920.0	+0.0
NZD/CAD	0.8804	+0.6			PHP	51.81	+0.3	NZX 50	8,123	-0.1	17.8	<b>Australian Futures</b>		
NZ TWI	72.99	-0.4										3 year bond	97.91	0.06
												10 year bond	97.19	0.03
<b>Interest Rates</b>														
	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	1.37	1.83	2.42	USD	2.44	0.02	NZGB 3 04/15/20	2.03	0.00	1 year	2.02	0.00	
AUD	1.50	1.70	1.96	2.94	AUD	2.76	-0.01	NZGB 6 05/15/21	2.19	0.02	2 year	2.17	0.00	
NZD	1.75	1.94	2.17	3.21	NZD	3.01	0.02	NZGB 5 1/2 04/15/23	2.50	0.02	5 year	2.67	0.00	
EUR	0.00	0.06	-0.17	0.92	GER	0.48	0.01	NZGB 2 3/4 04/15/25	2.81	0.02	7 year	2.94	0.00	
GBP	0.25	0.40	0.84	1.43	GBP	1.40	0.05	NZGB 4 1/2 04/15/27	3.01	0.02	10 year	3.21	0.01	
JPY	-0.04	-0.03	0.04	0.26	JPY	0.07	0.00	NZGB 3 1/2 04/14/33	3.37	0.03	15 year	3.46	0.03	
CAD	1.00	1.17	1.82	2.35	CAD	2.04	-0.03	NZGB 2 3/4 04/15/37	3.55	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 06:55

Source: Bloomberg

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