

26 September 2017

## Events Round-Up

GE: IFO Expectations, Sep: 107.4 vs. 108.0

## Good Morning

A risk-off tone has developed, with US-North Korea tensions escalating, which sees JPY head the leaderboard and UST yields lower. EUR and NZD are softer as the market digests the election results.

The NZD opened slightly higher yesterday, following Saturday's general election, but the positive vibe didn't last long, with selling pressure emerging thereafter, and the currency falling steadily through the afternoon. By the end of the local session the NZD was lower on all the crosses, with NZD/USD down by 0.8% to around 0.7255. We put the movement down to profit-taking after the NZD's good performance last week than a mark against the election result. To give more context, the month-to-date performance still puts the NZD as the second-best major currency. Against neutral global forces, the rates market showed a 2-3bps fall across the swap curve and the 10-year government bond rate fell by 2bps to 2.99%, while NZ's equity market outperformed, rising by 0.7%. So the rates market and equity market certainly didn't see the election outcome as negative.

The NZD has managed to stabilise overnight, even as a risk-off tone has developed, and currently sits around 0.7270. The trigger for the risk-off move was North Korea's foreign minister commenting that Trump's comments over the weekend amounted to a declaration of war. He declared that North Korea can shoot down US warplanes as part of its right to self-defence.

This saw a shift to safe-havens, with USD/JPY falling from 112.20 to 111.50 and now currently at 111.70. Earlier in the session there was no reaction to PM Abe's announcement of a 2 trillion yen (USD18 billion) economic package and call for a snap election, more than one-year earlier than scheduled, as he takes advantage of recently increased support. Speculation about a snap election announcement was doing the rounds a week ago. The soft NZD and strong yen sees NZD/JPY down about 1% to 81.2.

EUR came under pressure as the market reacted to Germany's Sunday election result. Support for her party and fellow coalition partner fell to historical lows, while the anti-immigration far-right party entered Parliament for

the first time. This sees Merkel scrambling to form a government with new political partners, a process that is expected to take months, rather than weeks. Adding to EUR weakness, Germany's IFO business confidence figures were slightly weaker than expected, off a high base, and looked to signal a possible peak in growth. Draghi didn't offer much new in his address to Parliament in Brussels, when he commented that "we have to be sensitive about the danger of halting a recovery through hasty monetary policy decision making". He repeated the message that while the Governing Council was becoming more confident about inflation, recent volatility in the euro exchange rate was a source of uncertainty and required monitoring. EUR is down 0.9% to 1.1840, while NZD/EUR is flat at 0.6140, after tracking around 0.6080 ahead of the NZ close.

The USD is higher against all the majors apart from the safe-havens, as the White House is expected to release more detail this week on Trump's tax proposal. Fed speakers overnight didn't surprise, with Dudley running the Fed's line that it would maintain the gradual pace of policy tightening as temporary factors holding down price pressures fade, while the more dovish Evans wants to see clear signs of building wage and price pressures before taking the next step in removing accommodation.

The AUD and CAD have shown only modest slippage against the USD, perhaps supported by strength in oil prices. The key benchmarks are up around 3% as Turkey threatened to shut down Kurdish crude shipments through its territory to punish the Iraqi region for holding an independence referendum. Brent crude is up 3½% to \$58.80, on track to close at its highest level since July 2015.

From a low around 0.9115 near the local close, NZD/AUD has tracked back up to around 0.9150.

US Treasury yields are down across the curve, a reflection of the risk-off tone, with a flattening bias evident. The 2-year rate is down 1bp to 1.41% while the 10-year rate is down 3bps to 2.22% and near it low for the session. Germany's 10-year rate is down 5bps to 0.40%, reflecting a combination of the risk-off tone and reaction to its surprising election result.

The day ahead sees more Fed speakers, including Chair Yellen tomorrow morning, but she is unlikely to deviate from the message of last week's press conference. The ANZ NZ business outlook survey will show how

confidence was tracking ahead of the election, and the outcome should be seen against the surprising strength in the previous month's reading.

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## Coming Up

	Period	Cons.	Prev.	NZT
NZ Trade balance (\$m)	Aug	-825	85	10:45
US Fed's Kashkari speaks in North Dakota				11:30
NZ ANZ activity outlook (net %)	Sep		38.2	13:00
NZ ANZ business confidence (net %)	Sep		18.3	13:00
US Fed's Mester moderates session				02:30
US New home sales ('000)	Aug	588	571	03:00
US Conf. Board consumer confidence	Sep	120	122.9	03:00
US Fed's Brainard speaks on labor market disparities				03:30
US Fed's Bostic speaks to the Atlanta Press Club				05:30
US Yellen speaks on Inflation, uncertainty, and monetary policy				05:45

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	0.7273	-0.8	0.7257	0.7295	CHF	0.9670	-0.2	S&P 500	2,495	-0.3	15.3	Oil (Brent)	58.86	+3.5
AUD	0.7948	-0.2	0.7926	0.7970	SEK	8.049	+0.8	Dow	22,281	-0.3	22.0	Oil (WTI)	52.11	+2.9
EUR	1.1841	-0.9	1.1832	1.1936	NOK	7.819	+0.2	Nasdaq	6,363	-1.0	19.9	Gold	1308.1	+1.1
GBP	1.3467	-0.3	1.3431	1.3571	HKD	7.814	+0.1	Stoxx 50	3,538	-0.1	16.7	HRC steel	604.0	-2.6
JPY	111.67	-0.3	111.48	112.33	CNY	6.622	+0.5	FTSE	7,301	-0.1	5.7	CRB	184.5	+0.5
CAD	1.2349	+0.1			SGD	1.351	+0.4	DAX	12,595	+0.0	18.5	Wheat Chic.	473.8	+0.9
NZD/AUD	0.9151	-0.7			IDR	13,325	+0.1	CAC 40	5,267	-0.1	17.3	Sugar	13.74	-1.7
NZD/EUR	0.6142	+0.0			THB	33.10	+0.0	Nikkei	20,398	+0.5	23.3	Cotton	69.09	+0.1
NZD/GBP	0.5401	-0.6			KRW	1,132	-0.4	Shanghai	3,342	-0.3	12.1	Coffee	131.6	-2.2
NZD/JPY	81.22	-1.0			TWD	30.19	+0.0	ASX 200	5,684	+0.0	4.6	WM powder	3085.0	+0.0
NZD/CAD	0.8981	-0.7			PHP	50.68	+0.0	NZX 50	7,870	+0.7	8.3	<b>Australian Futures</b>		
NZ TWI	76.41	-0.5										3 year bond	97.83	0.03
												10 year bond	97.20	0.01
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	1.33	1.69	2.18	USD	2.22	-0.03	NZGB 3 04/15/20	2.12	-0.02	1 year	2.03	-0.01	
AUD	1.50	1.71	2.03	2.94	AUD	2.80	0.01	NZGB 6 05/15/21	2.28	-0.02	2 year	2.21	-0.02	
NZD	1.75	1.95	2.21	3.21	NZD	2.99	-0.02	NZGB 5 1/2 04/15/23	2.58	-0.02	5 year	2.72	-0.03	
EUR	0.00	0.06	-0.18	0.85	GER	0.40	-0.05	NZGB 2 3/4 04/15/25	2.85	-0.02	7 year	2.96	-0.03	
GBP	0.25	0.33	0.79	1.37	GBP	1.33	-0.02	NZGB 4 1/2 04/15/27	2.99	-0.02	10 year	3.21	-0.03	
JPY	-0.05	-0.03	0.03	0.23	JPY	0.03	-0.01	NZGB 3 1/2 04/14/33	3.33	-0.02	15 year	3.45	-0.03	
CAD	1.00	1.17	1.95	2.36	CAD	2.09	-0.02	NZGB 2 3/4 04/15/37	3.54	-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 07:00

Source: Bloomberg

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