

27 October 2017

Events Round-Up

NZ: Trade balance (\$m), Sep: -1143 vs. -900 exp.
 GE: GfK consumer confidence, Nov: 10.7 vs. 10.8 exp.
 EC: ECB deposit facility rate, Oct: -0.4 vs. -0.4 exp.
 US: Advance gds trade bal. (\$b), Sep: -64.1 vs. -64.0 exp.
 US: Pending home sales (m/m%), Sep: 0.0 vs. 0.5 exp.

Good Morning

The USD is stronger across the board on increased confidence that a tax reform package can be delivered while the EUR fell after the ECB's "taper" announcement. UST yields remain steady against lower European rates.

The ECB's policy announcement had been eagerly awaited for some time and the announcement on the tapering of its asset purchase programme was in line with the consensus. The ECB said it would halve its monthly bond purchases to €30n per month from January and keep buying until the end of September next year, "or beyond if necessary". The ECB also reiterated that interest rates would remain at their current levels well past the end of the asset purchase program.

ECB President Draghi is one of the most market savvy central bank leaders you'll ever meet and he managed to engineer a weaker EUR and lower European bond rates on the day, despite the taper announcement (a word he avoided, preferring the term "recalibration"). He added that there wouldn't be a "sudden end to the buying", teasing the market and the open-endedness creating the impression of a dovish taper. EUR has fallen by over 1% since the announcement and has yet to find a floor, probing the 1.1660 area and pushing NZD/EUR up to 0.5865.

USD strength has supported the move down in EUR, with the market liking the Congress vote in favour of the Budget resolution that helps pave the way for Trump's tax reform package, with a goal of it being decided by the end of the year. There was an added boost after Politico reported that both Yellen and Warsh were out of the race for the Fed Chair position next year, making it a two-horse race between Powell and Taylor.

The NZD has been out of the spotlight, but the broadly stronger USD sees the currency continue to trend lower, down to around 0.6840. The NZD is looking oversold on

domestic political factors, but the recent resurgence we're seen for the USD mutes the prospect for a near-term recovery at this stage. Our short-term fair value model estimate sits just under USD0.73, supported by very high levels of risk appetite. When we stress-test our model with a 10% fall in commodity prices, a 20 percentage point reduction in our risk appetite index and a 50bp narrowing in NZ-US short rate spreads, we get a fair value estimate of USD 0.68. It suggests that the market already prices in a lot of negative news for the NZD, which should limit further downside risk from here.

The AUD weakened a little last night after RBA Deputy Governor gave a fairly dovish speech, indicating that measured CPI was over-stated by an average 0.25 percentage points per annum and that "there still remains a sizable degree of spare capacity in the labour market". NZD/AUD rose temporarily above 0.8950, but has since eased to 0.8920.

JPY has outperformed against all but the stronger USD. Reuters reported that PM Abe will order an extra budget by year-end to give impetus to his economic agenda. USD/JPY is up modestly to 114, while NZD/JPY has slipped just below 78.

In the bond market, US 10-year Treasury yields have traded in a 2.41-2.45% range, with the positive US news offset to some extent by lower European rates. Germany's 10-year rate is down 7bps to 0.41% after the ECB's dovish taper announcement. NZ rates were little changed yesterday across the government curve, while long-dated swap rates rose a touch. The 10-year rate rose by 2bps to 3.23% and the 2-year rate was flat at 2.17%.

Tonight sees the release of US Q3 GDP data which is expected to show annualised growth of 2.6%, keeping the Fed on track for a December rate hike which is now priced at more than an 80% chance.

jason.k.wong@bnz.co.nz

Coming Up

	Period	Cons.	Prev.	NZT	
JN	CPI (y/y%)	Sep	0.7	0.7	12:30
JN	CPI ex fresh food, energy (y/y%)	Sep	0.2	0.2	12:30
US	GDP (annualised q/q%)	Q3	2.6	3.1	01:30
US	U. of Mich. Sentiment	Oct F	100.7	101.1	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	0.6841	-0.7	0.6839	0.6904	CHF	0.9972	+0.8	S&P 500	2,564	+0.3	19.8	Oil (Brent)	59.13	+1.1
AUD	0.7667	-0.5	0.7666	0.7719	SEK	8.350	+1.6	Dow	23,425	+0.4	28.7	Oil (WTI)	52.61	+0.8
EUR	1.1662	-1.3	1.1660	1.1837	NOK	8.168	+1.9	Nasdaq	6,566	+0.0	25.1	Gold	1264.7	-0.8
GBP	1.3170	-0.7	1.3162	1.3276	HKD	7.801	-0.0	Stoxx 50	3,637	+1.3	18.1	HRC steel	605.0	-0.7
JPY	113.99	+0.2	113.34	114.04	CNY	6.643	+0.1	FTSE	7,487	+0.5	7.6	CRB	186.0	+0.3
CAD	1.2854	+0.5			SGD	1.366	+0.4	DAX	13,133	+1.4	22.6	Wheat Chic.	449.5	-0.9
NZD/AUD	0.8923	-0.2			IDR	13,587	+0.1	CAC 40	5,455	-0.1	20.3	Sugar	14.11	-0.5
NZD/EUR	0.5866	+0.6			THB	33.23	+0.1	Nikkei	21,740	+0.1	25.4	Cotton	68.38	-1.3
NZD/GBP	0.5194	+0.0			KRW	1,125	-0.3	Shanghai	3,408	+0.3	9.5	Coffee	124.6	+0.2
NZD/JPY	77.98	-0.5			TWD	30.24	-0.1	ASX 200	5,916	+0.2	11.7	WM powder	2930.0	-0.2
NZD/CAD	0.8793	-0.2			PHP	51.80	-0.0	NZX 50	8,087	-0.4	16.5	Australian Futures		
NZ TWI	72.88	-0.3										3 year bond	97.9	0.01
												10 year bond	97.17	-0.02
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	1.37	1.84	2.42	USD	2.45	0.02	NZGB 3 04/15/20	2.04	0.01	1 year	2.02	0.00	
AUD	1.50	1.69	1.94	2.96	AUD	2.75	-0.01	NZGB 6 05/15/21	2.20	0.00	2 year	2.17	0.00	
NZD	1.75	1.95	2.17	3.23	NZD	3.01	0.00	NZGB 5 1/2 04/15/23	2.50	0.00	5 year	2.68	0.01	
EUR	0.00	0.06	-0.19	0.87	GER	0.42	-0.07	NZGB 2 3/4 04/15/25	2.80	-0.01	7 year	2.95	0.02	
GBP	0.25	0.42	0.84	1.42	GBP	1.38	-0.02	NZGB 4 1/2 04/15/27	3.01	0.00	10 year	3.23	0.02	
JPY	-0.04	-0.04	0.03	0.26	JPY	0.07	0.00	NZGB 3 1/2 04/14/33	3.37	0.00	15 year	3.48	0.02	
CAD	1.00	1.17	1.81	2.35	CAD	2.03	-0.02	NZGB 2 3/4 04/15/37	3.55	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 07:01

Source: Bloomberg

Contact Details

New Zealand	Jason Wong	Senior Markets Strategist	+(64 4) 924 7652
Australia	Ray Attrill	Head of FX Strategy	+(61 2) 9237 1848
	Rodrigo Catril	Currency Strategist	+(61 2) 9237 7109
London	Gavin Friend	Senior Markets Strategist	+(44 0) 20 7710 0898

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