

27 September 2017

## Events Round-Up

NZ: Trade balance (\$m), Aug: -1235 vs. -825 exp.  
NZ: ANZ activity outlook (net %), Sep: 29.6 vs. 38.2 prev.  
NZ: ANZ bus. confidence. (net %), Sep: 0.0 vs. 18.3 prev.  
US: New home sales ('000), Aug: 560 vs. 585 exp.  
US: Conf. Board cons. conf., Sep: 119.8 vs. 120.0 exp.

## Good Morning

The USD is in the driving seat, making broadly based gains, while the NZD continues to underperform.

The USD is up on all the crosses bar the CAD, with a steady climb from last night without any notable key driving factors. It might reflect a number of factors, including more confidence that the USD is at a turning point after its steady decline for much of the year taking it well into "oversold" territory, increased confidence of tax reform and the EUR being out of favour after the surprising Germany Federal election results. Economic data haven't been a factor, with a slight easing in US consumer confidence from recent highs and a cooling in new home sales, as the impact of the Hurricanes begins to impact the data.

The USD TWI majors index is 0.2% for the day and now up 2% from its early-September lows. The USD was well on the ascendency before Yellen's speech this morning, which has added some volatility into the mix. The initial headlines flashing across the screen looked on the hawkish side: "Imprudent to keep monetary policy on hold until inflation at 2 percent" and "Persistently easy policy can hurt financial stability", but the overall speech was fairly well balanced. The Fed remains on a gradual tightening path but it will be carefully monitoring incoming data. Just ahead of Yellen, Atlanta Fed president Bostic made his first public comments since taking office, and they were a little on the hawkish side. He says he is comfortable with a December rate hike and he sounded upbeat on inflation, saying he was hearing anecdotes of more pressure on wages and prices, "...more clearly and consistently than when I started in June."

The NZD has traded lower since early afternoon yesterday. There was some headline shock from the ANZ's business outlook survey showing that confidence had slumped to 0.0 just ahead of the election, but we saw that as understandable, and on a seasonally adjusted basis the figure wasn't nearly as bad. Indeed, it was surprising that

confidence had held up so strongly in the prior survey. Certainly, it feels like the inconclusive election result has provided traders an excuse to sell the NZD, and it is lower on all the crosses. But the underperformance of the NZD should also be seen in the context of widespread declines in emerging market currencies. Overlaying the NZD against an EM currency index highlights the high correlation over the past week. A stronger USD is typically seen as bad for emerging markets as it represents a tightening in global financial conditions. Notably, NZ equities don't see any bad news from the election result, with the two-day cumulative gain post-election up close to 1%, against a backdrop of flat global equity markets.

The NZD has managed to climb back up to 0.7210 after falling as low as 0.7168 as Yellen's speech headlines came out. NZD/AUD has tracked around 0.9115-0.9135 since the NZ close, with all the fall in the cross coming through yesterday afternoon.

EUR has been under downward pressure through most of the night, falling down to 1.1760, before recovering to 1.18. Political risk has re-emerged in the euro area, with the increase in the far-right movement seen as a wake-up call to those who thought the threat of populism in the EU had subsided. Political uncertainty overhangs Spain and Italy as well. Spain's top court ruled that Catalan's plans for an independence referendum this weekend is illegal.

There's not much to say about the other major currencies, with JPY and GBP softness a reflection of the stronger USD path. USD/JPY is up testing two-month highs around 112.20 while GBP hasn't done too badly, only down slightly to 1.3450.

US Treasury yields have tracked a little higher, with the 10-year rate up about 1bp from the NZ close and that gain coming ahead of Bostic and Yellen speeches. So the movement reflects a slightly better mood for risk assets than any change in monetary policy expectations.

NZ rates were lower across the curve yesterday, largely a response to the move lower in US rates in the previous session than local factors. The 2-year swap rate fell by 2bps to 2.19% and the 10-year rate fell by 4bps to 3.18%. If we look at the NZ-US 10-year government bond spread pre and post-election, we don't detect any significant impact from NZ's election result. From Friday's local close around 75bps, the spread had narrowed slightly to 73bps as at yesterday's local close.

The day ahead looks fairly uneventful. Overnight sees the release of US durable goods orders data and a couple more Fed speakers on the circuit.

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Coming Up

	Period	Cons.	Prev.	NZT
US Durable goods orders (m/m%)	Aug P	1.0	-6.8	01:30
US Durables ex transportation (m/m%)	Aug P	0.3	0.6	01:30
US Pending home sales (m/m%)	Aug	-0.5	-0.8	03:00
US Fed's Bullard speaks on economy and monetary policy				06:30
US Fed's Brainard speaks at minority banker forum				07:00

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	0.7214	-0.7	0.7168	0.7251	CHF	0.9691	+0.3	S&P 500	2,501	+0.2	16.5	Oil (Brent)	58.21	-1.4
AUD	0.7897	-0.5	0.7859	0.7946	SEK	8.121	+1.0	Dow	22,323	+0.1	23.4	Oil (WTI)	51.91	-0.6
EUR	1.1806	-0.4	1.1758	1.1859	NOK	7.879	+0.8	Nasdaq	6,397	+0.4	21.7	Gold	1298.4	-0.6
GBP	1.3460	-0.0	1.3410	1.3514	HKD	7.812	-0.0	Stoxx 50	3,536	-0.0	18.8	HRC steel	620.0	+0.0
JPY	112.16	+0.4	111.50	112.48	CNY	6.640	+0.3	FTSE	7,286	-0.2	6.9	CRB	183.3	-0.7
CAD	1.2337	-0.3			SGD	1.354	+0.2	DAX	12,605	+0.1	21.3	Wheat Chic.	473.0	-0.2
NZD/AUD	0.9135	-0.2			IDR	13,374	+0.4	CAC 40	5,269	-0.1	19.5	Sugar	13.21	-3.9
NZD/EUR	0.6110	-0.4			THB	33.23	+0.4	Nikkei	20,330	-0.3	21.9	Cotton	70.09	+1.4
NZD/GBP	0.5360	-0.6			KRW	1,137	+0.5	Shanghai	3,344	+0.1	11.5	Coffee	132.3	+0.4
NZD/JPY	80.91	-0.3			TWD	30.26	+0.2	ASX 200	5,671	-0.2	4.9	WM powder	3085.0	+0.0
NZD/CAD	0.8900	-1.0			PHP	50.91	+0.5	NZX 50	7,887	+0.2	8.7	<b>Australian Futures</b>		
NZ TWI	75.99	-0.5										3 year bond	97.82	-0.01
												10 year bond	97.20	0.00
Interest Rates						NZ Government Bonds				NZ Swap Yields				
Rates		Swap Yields		Benchmark 10 Yr Bonds		Last				Last				
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day							
USD	1.25	1.33	1.70	2.19	USD	2.23	0.01	NZGB 3 04/15/20	2.10	-0.02	1 year	2.02	-0.01	
AUD	1.50	1.71	2.03	2.93	AUD	2.77	-0.03	NZGB 6 05/15/21	2.25	-0.02	2 year	2.19	-0.02	
NZD	1.75	1.95	2.19	3.18	NZD	2.95	-0.04	NZGB 5 1/2 04/15/23	2.55	-0.02	5 year	2.69	-0.03	
EUR	0.00	0.06	-0.18	0.85	GER	0.41	0.01	NZGB 2 3/4 04/15/25	2.81	-0.03	7 year	2.93	-0.03	
GBP	0.25	0.33	0.80	1.39	GBP	1.33	-0.00	NZGB 4 1/2 04/15/27	2.95	-0.03	10 year	3.18	-0.04	
JPY	-0.06	-0.03	0.02	0.23	JPY	0.03	0.01	NZGB 3 1/2 04/14/33	3.29	-0.04	15 year	3.41	-0.04	
CAD	1.00	1.17	1.97	2.38	CAD	2.11	0.02	NZGB 2 3/4 04/15/37	3.50	-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: NZT 06:55

Source: Bloomberg

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