

28 November 2017



Events Round-Up

US: New home sales ('000), Oct: 685 vs. 627 exp.

Good Morning

Amidst a day lacking in newsflow, the NZD and JPY have outperformed, while the US yield continues to flatten.

It was a pleasant surprise to wake up and see the NZD trading stronger, up 0.5% to 0.6910 after reaching a high this morning of 0.6926. The gain has been broadly based, except against JPY, which has been equally strong since last week's close. Our spot desk reports selling on the AUD/NZD cross has been a key factor in the move.

Our running thesis is that the NZD has been slightly oversold on unwarranted domestic political fears. There were hints last week that the selling pressure had become exhausted after the NZD held up despite another surprisingly weak GDT dairy auction. Net speculative short positions had reached their highest since May, so the hurdle rate for a modest recovery, is pretty low. Our fair value estimate has been drifting lower over recent weeks on the back of lower risk appetite, lower NZ commodity prices and a narrower NZ-US spread, but is still higher than spot at 0.7180. Throughout the volatility we're left our year-end target at USD 0.70. Seasonally, December is a much better month (up 7 of the last 10 years) for the NZD than November (down 9 of the last 10 years).

Relative to last week's NY close, the NZD is up 0.5-0.7% on all the crosses apart from JPY. This sees NZD/AUD at 0.9080, NZD/GBP at 0.5185 and NZD/EUR at 0.5800.

JPY strength is arguably less deserving than the NZD recovery. USD/JPY recently broke down through its 200-day moving average and now trades below the 111 mark to a 2-month low, so technical factors might be playing a role. Over the weekend, BoJ member Hitoshi Suzuki said that it's possible for the central bank to make slight changes in its yield-curve control program when price growth approaches the 2% inflation target. He added that "...it wouldn't be strange if the BOJ conducted fine-tuning so market participants can familiarise themselves with a gradual process; as CPI approaches 2%, there should be a

discussion on it." It's a theme we've heard before and therefore the comments didn't sound like news to me. In any case inflation remains far from the 2% target so the argument is academic. There were also reports that Japan got a signal that North Korea was preparing to launch another missile, but that only had a passing impact on the market. NZD/JPY is flat at 76.7.

There is little else to report. In the only key economic release, US new homes sales unexpectedly surged to their highest level in a decade but this has little market impact. The USD was on the defensive most of the night but saw some life after Trump tweeted that the tax reform bill is coming along "very well." The various USD indices are now flat for the day. As I was finalising this report, the Fed's Kaplan was speaking and the headlines looked to be on the hawkish side, saying he's mindful of the Fed getting behind the curve.

The US Treasury curve continues to flatten, with the 2-year rate up 1bp to 1.75% and the 10-year rate down 1bp to 2.33%. The Fed's outgoing Dudley speaks this afternoon about the US economy "10 years after the crisis" while tonight the new Fed chair-in-waiting Powell faces a grilling in front of a Senate committee. He is expected to be on his best behaviour and play with a straight bat, offering some continuity with current Fed monetary policy and being malleable to winding back some of the post GFC financial market reforms.

The NZ yield curve showed slightly higher rates yesterday. Low rates at the longer end of the curve have seen corporate paying interest perk up, seeing the 5 and 10-year swap rates up 2bps to 2.63% and 3.13% respectively, while the 2-year rate was flat at 2.17%.

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Coming Up

	Period	Cons.	Prev.	NZT	
US	Fed's Dudley speaks on US economy: 10yrs after crisis			13:00	
GE	GfK consumer confidence	Dec	10.7	10.7	01:00
US	Advance goods trade bal. (\$b)	Oct	-65.0	-64.1	02:30
US	Conf. Board consumer confic	Nov	124.0	125.9	04:00
US	Powell at Senate confirmation hearing				04:00

Source: Bloomberg, BNZ

Foreign Exchange							Equities				Commodities**			
Indicative overnight ranges (*)				Other FX			Major Indices				Price			
	Last	% Day	Low	High		Last	% Day			Last	% Day	Net Day		
NZD	0.6907	+0.5	0.6859	0.6926	CHF	0.9803	+0.2	S&P 500	2,602	-0.0	17.5	Oil (Brent)	63.47	-0.4
AUD	0.7607	-0.1	0.7601	0.7645	SEK	8.296	+0.2	Dow	23,590	+0.2	23.2	Oil (WTI)	57.95	-1.4
EUR	1.1907	-0.2	1.1905	1.1961	NOK	8.141	+0.2	Nasdaq	6,877	-0.2	27.4	Gold	1295.7	+0.6
GBP	1.3333	-0.0	1.3310	1.3383	HKD	7.801	-0.1	Stoxx 50	3,564	-0.5	16.9	HRC steel	611.0	+0.0
JPY	111.00	-0.5	110.84	111.46	CNY	6.599	-0.0	FTSE	7,384	-0.3	7.9	CRB	191.6	-0.3
CAD	1.2759	+0.4			SGD	1.346	+0.1	DAX	13,000	-0.5	21.5	Wheat Chic.	429.0	-1.4
NZD/AUD	0.9080	+0.5			IDR	13,508	+0.0	CAC 40	5,360	-0.3	17.8	Sugar	15.38	-0.5
NZD/EUR	0.5801	+0.6			THB	32.61	-0.2	Nikkei	22,496	-0.2	22.4	Cotton	72.20	+0.3
NZD/GBP	0.5180	+0.4			KRW	1,089	+0.3	Shanghai	3,322	-0.9	1.8	Coffee	128.1	+0.4
NZD/JPY	76.67	-0.0			TWD	30.00	+0.1	ASX 200	5,989	+0.1	8.7	WMI powder	2915.0	+0.3
NZD/CAD	0.8813	+0.8			PHP	50.34	-0.7	NZX 50	8,176	+0.6	18.5	Australian Futures		
NZ TWI	72.99	+0.5										3 year bond	98.08	0.01
												10 year bond	97.48	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		Last		
USD	1.25	1.47	1.92	2.33	USD	2.33	-0.01	NZGB 3 04/15/20	1.96	0.01	1 year	2.00	0.01	
AUD	1.50	1.73	1.89	2.71	AUD	2.52	0.02	NZGB 6 05/15/21	2.10	0.02	2 year	2.17	0.00	
NZD	1.75	1.91	2.17	3.13	NZD	2.81	0.03	NZGB 5 1/2 04/15/23	2.39	0.02	5 year	2.63	0.02	
EUR	0.00	0.06	-0.19	0.80	GER	0.34	-0.02	NZGB 2 3/4 04/15/25	2.66	0.03	7 year	2.87	0.02	
GBP	0.50	0.52	0.83	1.32	GBP	1.25	0.00	NZGB 4 1/2 04/15/27	2.81	0.03	10 year	3.13	0.02	
JPY	-0.05	-0.02	0.04	0.26	JPY	0.04	0.01	NZGB 3 1/2 04/14/33	3.17	0.02	15 year	3.37	0.02	
CAD	1.00	1.17	1.77	2.19	CAD	1.87	-0.02	NZGB 2 3/4 04/15/37	3.40	0.03				

* 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 06:34

Source: Bloomberg

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