

28 September 2017

Events Round-Up

US: Durable goods orders (m/m%), Aug P: 1.7 vs. 1.0 exp.

US: Durables ex trans.. (m/m%), Aug P: 0.2 vs. 0.2 exp.

US: Pending home sales (m/m%), Aug: -2.6 vs. -0.5 exp.

Good Morning

With US tax reform and Fed hikes on the minds of investors, global rates are a lot higher and the USD is broadly higher, except against the NZD, which has recovered some its post-election sell-down.

Overnight, Trump released a 9-page tax reform plan that has widespread backing from his fellow Republicans, a step-up from the 2-pager he released several months ago. Details of the plan were leaked out yesterday, and this supported the USD during local trading, and further progress was made overnight. The plan includes a cut to corporate tax from 35% to 20% and cuts to individual tax rates, but leaving to Congress the decision of whether to create a higher tax bracket for top earners. A one-off tax reduction for companies to repatriate offshore profits was included as well as removal of some deductions and general tax simplification measures.

There are still a number of hurdles to get the tax plan into law and the overall quantum of fiscal stimulus is still unknown, but the market sees the plan as good enough to add to the chance of further Fed tightening, which has been well under-priced relative to the FOMC's Fed Funds rate projections. The odds of a Fed hike in December have nudged up further, now close to 70%, while rates have risen across the US Treasury curve, with the 2-year rate up 4bps to 1.47%, its highest level since 2008 while the 10-year rate is up 7bps to 2.305%, its highest level since early August. This has spilled over into other markets, with UK and Germany 10-year rates up 5-6bps as well.

Supported by the tax plan, the USD has continued its recovery, seeing the TWI majors index up 0.4%. In economic news, US durable goods orders data were solid, while pending home sales data were soft, even excluding the impact from the Hurricanes. One of the biggest losers has been the CAD. BoC Governor Poloz's first speech since his second rate increase was seen to be dovish by the market, as he highlighted uncertainty about the outlook and puzzles in the data, and he said that the bank would proceed cautiously from here. He added that the

rising currency could complicate the inflation outlook. USDCAD is up 0.7% to 1.2430. EUR, GBP, AUD and JPY have all lost about 0.2-0.4% against the USD.

The NZD is the only major currency that has managed to gain against the USD, showing signs of recovery after underperforming in the post-election aftermath. Whole milk powder futures have moved up since the end of last week and the second contract added 2.8% yesterday, which is a supporting factor. The market might be factoring in a softer path of dairy production in NZ after the very wet winter. The NZD sell-down post-election also seemed overdone. Alongside the NZ rates market, NZ equities have been unperturbed by the result, putting on gains for the third consecutive day and piling on 1.3% over that time to reach a record high.

The NZD is currently around 0.7230, with gains on all the crosses. We've seen a fairly steady climb in NZD/AUD up to around 0.92.

We think that this morning's RBNZ OCR review should pass without much market reaction, with the Bank's key policy message likely remaining unchanged, suggesting that "monetary policy will remain accommodative for a considerable period". We don't think that the Bank will join some other central banks in guiding towards policy normalisation, yet.

New Acting Governor Spencer has the opportunity to stamp his mark with a freshly re-written Statement and we hope he does, particularly with regards to the NZ dollar. We'd mark it as a sign of wisdom if he shifts away from making indefensible value judgements on the NZD and just stuck to the facts. The NZ TWI is below its average for the past year and in line with the average of the past 5 years, despite NZ's terms of trade near a record high. Attempting to talk the NZD down, as his predecessor had a penchant for, therefore makes little sense.

The NZ rates market was quiet yesterday, with nothing much traded in the swap market and rates marked slightly higher, with the 2-year rate up 2bps to 2.20% and the 10-year rate up 4bps to 3.21%. Global forces should see higher rates on the open, ahead of the RBNZ's Statement at 9am. There are a number of central bank speakers tonight at the BoE conference to watch out for, while Germany CPI data will also be closely monitored.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ RBNZ official cash rate (%)	Sep	1.75	1.75	09:00
US Fed's Rosengren to speak in New York				12:00
GE GfK consumer confidence	Oct	11.0	10.9	19:00
UK Carney Speaks at BOE conference, London				
EC Economic confidence	Sep	112.0	111.9	22:00
AU RBA's Debelle speaks at BOE conference, London				22:00
GE CPI EU harmonised (m/m%)	Sep P	0.1	0.2	01:00
GE CPI EU harmonised (y/y%)	Sep P	1.9	1.8	01:00
US GDP (annualised q/q%, third est.)	Q2	3	3	01:30
US Advance goods trade balance (\$b)	Aug	-65.1	-65.1	01:30
US Fed's George speaks on economy and monetary policy				02:45
UK Fed's Fischer speaks at BOE conference, London				03:00
US Fed's Bostic speaks				06:30

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	0.7226	+0.2	0.7177	0.7239	CHF	0.9713	+0.3	S&P 500	2,502	+0.2	15.8	Oil (Brent)	57.72	-1.3
AUD	0.7862	-0.3	0.7836	0.7883	SEK	8.139	+0.2	Dow	22,306	+0.1	22.4	Oil (WTI)	52.04	+0.3
EUR	1.1765	-0.2	1.1717	1.1784	NOK	7.937	+0.6	Nasdaq	6,443	+1.0	21.4	Gold	1284.9	-1.0
GBP	1.3409	-0.4	1.3364	1.3429	HKD	7.810	-0.0	Stoxx 50	3,555	+0.5	19.7	HRC steel	592.0	+0.3
JPY	112.73	+0.4	112.35	113.26	CNY	6.643	+0.0	FTSE	7,314	+0.4	7.4	CRB	183.8	+0.2
CAD	1.2438	+0.7			SGD	1.359	+0.3	DAX	12,657	+0.4	22.2	Wheat Chic.	480.5	+1.5
NZD/AUD	0.9191	+0.6			IDR	13,445	+0.5	CAC 40	5,282	+0.4	20.1	Sugar	13.08	-1.0
NZD/EUR	0.6142	+0.5			THB	33.30	+0.3	Nikkei	20,267	-0.3	23.1	Cotton	69.38	-1.0
NZD/GBP	0.5389	+0.7			KRW	1,141	+0.3	Shanghai	3,345	+0.1	12.0	Coffee	129.4	-2.2
NZD/JPY	81.46	+0.7			TWD	30.32	+0.2	ASX 200	5,664	-0.1	4.7	W/M powder	3170.0	+2.8
NZD/CAD	0.8988	+1.0			PHP	51.02	+0.2	NZX 50	7,914	+0.3	8.6	Australian Futures		
NZ TWI	76.34	+0.5										3 year bond	97.81	-0.02
												10 year bond	97.15	-0.04
Interest Rates						NZ Government Bonds				NZ Swap Yields				
	Rates		Swap Yields		Benchmark 10 Yr Bonds		Last		Last	Last				
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day								
USD	1.25	1.33	1.73	2.27	USD	2.31	0.07	NZGB 3 04/15/20	2.10	0.00	1 year	2.03	0.01	
AUD	1.50	1.71	2.04	2.98	AUD	2.79	0.02	NZGB 6 05/15/21	2.25	0.00	2 year	2.20	0.02	
NZD	1.75	1.96	2.20	3.21	NZD	2.96	0.01	NZGB 5 1/2 04/15/23	2.55	0.00	5 year	2.71	0.02	
EUR	0.00	0.06	-0.17	0.90	GER	0.47	0.06	NZGB 2 3/4 04/15/25	2.81	-0.00	7 year	2.96	0.03	
GBP	0.25	0.33	0.81	1.42	GBP	1.38	0.05	NZGB 4 1/2 04/15/27	2.96	0.00	10 year	3.21	0.04	
JPY	-0.05	-0.03	0.03	0.26	JPY	0.06	0.03	NZGB 3 1/2 04/14/33	3.31	0.01	15 year	3.45	0.03	
CAD	1.00	1.17	1.93	2.40	CAD	2.14	0.03	NZGB 2 3/4 04/15/37	3.52	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 06:53

Source: Bloomberg

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