

29 November 2017



Events Round-Up

GE: GfK consumer confidence, Dec: 10.7 vs. 10.7 exp.

US: Goods trade balance (\$b), Oct: -68.3 vs. -64.9 exp.

US: Conf. Board cons. confid., Nov: 129.5 vs. 124.0 exp.

Good Morning

The NZD holds the top performing spot for the second consecutive day, although no more progress has been made overnight, as the USD has recovered a little. UST yields are slightly lower.

For a change, there's plenty of news to report, much of it US-focused. Fed Chair-in-waiting Powell has been grilled by a Senate committee that will affirm his nomination. His script released yesterday was vanilla, in line with the Fed's current stance on policy but analysts are trying to read any nuances about the policy outlook and likely over-analysing any answers he provides to the committee. From when he began speaking, the USD was a little jumpy, but it has sustained the increase seen earlier in the session. On monetary policy Powell sees the case for a December rate hike as "coming together". He noted the recent weak inflation readings, adding that "we can afford to go more slowly" with interest rate hikes if inflation stays low, suggesting that monetary policy next year will be guided by the data. It all looks like a continuation of Yellen's plan.

US economic data were mixed, with the Conference Board index of consumer confidence unexpectedly rising to a 17-year high, consistent with the 17-year low in the unemployment rate. Meanwhile, advance data showed the trade deficit was greater than expected and wholesale and retail inventories were soft (negative monthly changes). These are early reads, but the figures will act as a drag on Q4 GDP growth.

Media are reporting last-minute modifications to the Senate tax bill in order to get some over the line to pass it this week. Meanwhile, a potential deal with the Democrats to prevent a government shutdown next month has been stymied by a Trump tweet that doesn't help the cause.

US equities have pushed up to fresh highs. The S&P500 index is currently up 0.6%, led by Financials, perhaps emboldened by Powell's comments that bank rules are "tough enough" and he backs a rewrite of the Volcker Rule that would give banks more freedom to trade on a

proprietary basis. We've previously reported on the strength of the global economy. Overnight the OECD reported that the global economy is on course for its best year since 2010, with strong growth expected to be sustained through 2018 and 2019.

The USD TWI majors index is up 0.3%, with most of the gain coming before all the news reported above. The NZD and AUD have managed to edge higher against the more positive USD backdrop. The NZD sits this morning at 0.6925, sustaining the gentle rise it made through NZ trading hours. It made a couple of attempts to push higher overnight but failed to break 0.6945.

NZD/AUD was on an upward plane through much of yesterday, reaching around 0.9120 before a slightly stronger AUD kicked in and the cross sits around the 0.9100 mark. As I write, the AUD has just peeled off its high for the session of 0.7620.

GBP was the weakest of the majors, until a headline just hit the screen that the EU and UK have agreed on a Brexit divorce bill, with the final figure set to be between €45-55bn. Still, PM May has less than a week to come up with a solution to the Irish border issue that looks like the biggest stumbling block to move forward on Brexit negotiations with the EU. GBP recovered from 1.3220 to 1.3330. The headline saw NZD/GBP fall from 0.5240 to below 0.5200.

The slightly stronger USD backdrop sees EUR drift down to 1.1870, while yesterday's fall in USD/JPY below 111 proved to be ephemeral and it has steadied itself around 111.30. NZD/EUR and NZD/JPY crosses are up about 0.3-0.4% to 0.5830 and 77.0 respectively.

UST yields drifted lower during Powell's hearing, suggesting that the bond market was reading his comments as slightly on the dovish side, although movement wasn't particularly significant and much of it has now been retraced. For the day, the 2-year rate is now flat, while the 10yr rate is currently down 1bp to 2.32%. Yesterday saw a 1bp fall across NZ's swap curve in a quiet trading session.

Today kicks off with the RBNZ Financial Stability Report at 9am, which is expected to outline a roadmap for the eventual easing of LVR restrictions. Tonight the focus will turn to Yellen's testimony in front of lawmakers, but its significance is less than usual given her imminent departure. We'll be more interested in Germany CPI data.

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Coming Up

	Period	Cons.	Prev.	NZT	
NZ	RBNZ Financial Stability Report			09:00	
JN	Retail sales (m/m%)	Oct	0.2	0.8	12:50
EC	Economic confidence	Nov	114.6	114	23:00
GE	CPI EU Harmonised (m/m%)	Nov P	0.2	-0.1	02:00
US	Fed's Dudley speaks about US economy				02:30
US	GDP (annlsd. q/q 2nd estimate)	Q3	3.2	3.0	02:30
US	Yellen appears before joint economic committee of Congress				04:00
US	Pending home sales (m/m%)	Oct	1.1	0.0	04:00
US	Fed's Williams speaks in Phoenix				06:45

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	0.6924	+0.2	0.6916	0.6945	CHF	0.9834	+0.2		S&P 500	2,617	+0.6	18.8		Oil (Brent)	63.61	-0.4
AUD	0.7611	+0.1	0.7588	0.7620	SEK	8.337	+0.4		Dow	23,759	+0.7	24.4		Oil (WTI)	57.94	-0.3
EUR	1.1870	-0.2	1.1864	1.1920	NOK	8.220	+0.8		Nasdaq	6,898	+0.3	28.5		Gold	1295.1	+0.1
GBP	1.3334	+0.1	1.3221	1.3358	HKD	7.803	+0.0		Stoxx 50	3,583	+0.5	18.8		HRC steel	611.0	+0.0
JPY	111.25	+0.1	111.09	111.47	CNY	6.608	+0.1		FTSE	7,461	+1.0	9.7		CRB	191.1	-0.3
CAD	1.2805	+0.3			SGD	1.345	-0.1		DAX	13,060	+0.5	23.4		Wheat Chic.	425.0	-0.7
NZD/AUD	0.9097	+0.0			IDR	13,510	+0.0		CAC 40	5,390	+0.4	19.5		Sugar	15.10	-1.9
NZD/EUR	0.5833	+0.4			THB	32.56	-0.2		Nikkei	22,486	-0.0	22.8		Cotton	73.82	+2.3
NZD/GBP	0.5193	+0.1			KRW	1,084	-0.4		Shanghai	3,334	+0.3	1.5		Coffee	129.8	+1.2
NZD/JPY	77.03	+0.3			TWD	30.00	-0.0		ASX 200	5,984	-0.1	9.7		WM powder	2910.0	+0.2
NZD/CAD	0.8866	+0.5			PHP	50.33	-0.0		NZX 50	8,141	-0.4	18.0		Australian Futures		
NZ TWI	73.16	+0.2												3 year bond	98.09	0.01
														10 year bond	97.50	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	
USD	1.25	1.48	1.91	2.31	USD	2.32	-0.01	NZGB 3 04/15/20	1.94	-0.02
AUD	1.50	1.73	1.87	2.69	AUD	2.49	-0.03	NZGB 6 05/15/21	2.08	-0.02
NZD	1.75	1.92	2.15	3.12	NZD	2.78	-0.02	NZGB 5 1/2 04/15/23	2.37	-0.02
EUR	0.00	0.06	-0.19	0.81	GER	0.34	-0.00	NZGB 2 3/4 04/15/25	2.63	-0.03
GBP	0.50	0.52	0.86	1.37	GBP	1.25	0.00	NZGB 4 1/2 04/15/27	2.78	-0.02
JPY	-0.05	-0.03	0.04	0.25	JPY	0.04	-0.00	NZGB 3 1/2 04/14/33	3.14	-0.02
CAD	1.00	1.17	1.75	2.16	CAD	1.82	-0.05	NZGB 2 3/4 04/15/37	3.38	-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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