

29 September 2017

## Events Round-Up

NZ: RBNZ official cash rate (%), Sep: 1.75 vs. 1.75 exp.  
GE: GfK consumer confidence, Oct: 10.8 vs. 11.0 exp.  
EC: Economic confidence, Sep: 113.0 vs. 112.0 exp.  
GE: CPI EU harmonised (m/m%), Sep: 0.0 vs. 0.1 exp.  
GE: CPI EU harmonised (y/y%), Sep: 1.8 vs. 1.9 exp.  
US: GDP (annualised q/q%, third est.), Q2: 3.1 vs. 3.0 exp.  
US: Adv. goods trade bal. (\$b): Aug: -62.9 vs. -65.1 exp.

## Good Morning

A key theme over recent weeks has been a recovery in the USD and higher US Treasury rates from their lows for the year, supported by more conviction in further Fed monetary policy tightening and an increased chance of Trump getting a tax reform programme into law. There has been a pause in that trend for no obvious reason overnight. Month-end and quarter-end flows might be affecting markets, with not a great deal of news for the markets to grab on to.

Euro-area economic confidence, a combined measure of business and consumers, rose more than expected to a decade-high, while in the US a narrower US trade deficit was recorded and jobless claims continued to show the effects of the hurricanes. None of this data had much impact on the market.

Yesterday, the RBNZ's OCR release passed as the non-event it was widely expected to be. There were only minor tweaks to the Statement and no changes to the key policy outlook statement of "monetary policy will remain accommodative for a considerable period", with the Bank not following the lead of the BoC or BoE. On the NZD, Acting Governor Spencer wisely stuck to the facts, noting the slight easing in the TWI and that a lower NZD "would help" to increase tradeables inflation – no indefensible value judgement there to argue with.

There was little market reaction to the announcement. The NZD slipped a touch from 0.7220 to 0.7200 before settling and reached a low of 0.7167 last night as the USD trended higher. A weaker path for the USD since then sees the NZD trading back up to around 0.7230.

The AUD is struggling against the backdrop of weaker iron ore prices. Iron ore prices have fallen for 9 of the past 11 days and are down over 20% for the month to date to

below \$63 on the Qingdao benchmark. This sees NZD/AUD back up through the 0.92 mark.

The NZD is flat on the other key crosses, as the other majors also made modest gains against the USD.

In the rates market, US 10-year Treasury yields showed further upside, with much of the movement coming after the NZ close, up to a high of 2.36% last evening. Since then, yields have tracked lower and they currently sit at 2.31%, down about 1bp from the NZ close. There has been no obvious news to drive the turnaround, and it might just reflect some profit-taking after a strong run-up in rates. We might need to see some fresh inflation-unfriendly news before the market is willing to take rates up another leg from here.

The NZ rates market didn't show much reaction to the RBNZ OCR review. The 2-year swap rate closed the day flat at 2.21% and the 10-year swap rate was up 5bps to 3.26%, with the movement in the long end largely reflecting the upside to global rates in the previous overnight session. The rates curve shows that the first RBNZ hiking is priced in by November 2018. While this is slightly later than BNZ's pick of August, these dates are still in the distant future and will likely keep the short end of the curve well anchored for some time. Market expectations assume little change to the Policy Targets Agreement and that the new Governor from March next year doesn't throw a curveball.

The calendar ahead is action-packed. Focus will turn to the inflation indicators for the euro area and the US tonight. US CPI data previously released imply a slight uptick in the PCE deflators. Draghi and Carney will be talking at the BoE's conference, which continues tonight.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ Building permits (m/m%)	Aug		-0.7	10:45
UK GfK consumer confidence	Sep	-11	-10	12:01
JN CPI ex fresh food, energy (y/y%)	Aug	0.2	0.1	12:30
JN Industrial production (m/m%)	Aug P	1.8	-0.8	12:50
CH Caixin PMI manufacturing	Sep	51.5	51.6	14:45
NZ NZ plans to sell \$150m 2033 bonds				15:05
GE Unemployment claims rate (%)	Sep	5.7	5.7	20:55
EC CPI (y/y%)	Sep	1.6	1.5	22:00
EC CPI core (y/y%)	Sep A	1.2	1.2	22:00
US Personal income (m/m%)	Aug	0.2	0.4	01:30
US Personal spending (m/m%)	Aug	0.1	0.3	01:30
US PCE deflator (m/m%)	Aug	0.3	0.1	01:30
US PCE deflator core (m/m%)	Aug	0.2	0.1	01:30
US PCE deflator core (y/y%)	Aug	1.4	1.4	01:30
US Chicago purchasing manager	Sep	58.7	58.9	02:45
EC ECB's Draghi, BOE's Carney in dialog in London				03:15
US Fed's Harker Speaks at Fintech Event on Consumers and Bank				04:00
CH Manufacturing PMI	Sep	51.6	51.7	Sat
CH Non-manufacturing PMI	Sep		53.4	Sat

Source: Bloomberg, BNZ

Foreign Exchange					Equities				Commodities**						
Indicative overnight ranges (*)					Other FX				Major Indices				Price		
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day		Last	Net Day	
NZD	0.7230	+0.4	0.7167	0.7234	CHF	0.9706	-0.2		S&P 500	2,509	+0.1	15.6	Oil (Brent)	57.27	-1.0
AUD	0.7852	+0.0	0.7800	0.7855	SEK	8.132	-0.2		Dow	22,386	+0.2	22.1	Oil (WTI)	51.41	-1.3
EUR	1.1787	+0.4	1.1721	1.1804	NOK	7.940	-0.2		Nasdaq	6,453	+0.0	21.3	Gold	1285.5	+0.1
GBP	1.3446	+0.4	1.3343	1.3455	HKD	7.811	+0.0		Stoxx 50	3,564	+0.2	19.1	HRC steel	599.0	+0.5
JPY	112.46	-0.3	112.39	113.21	CNY	6.661	+0.3		FTSE	7,323	+0.1	6.9	CRB	182.8	-0.6
CAD	1.2430	-0.4			SGD	1.358	-0.1		DAX	12,705	+0.4	21.7	Wheat Chic.	475.8	-1.0
NZD/AUD	0.9208	+0.4			IDR	13,515	+0.5		CAC 40	5,294	+0.5	19.4	Sugar	13.23	+1.1
NZD/EUR	0.6134	+0.0			THB	33.38	+0.3		Nikkei	20,363	+0.5	22.0	Cotton	69.28	-0.1
NZD/GBP	0.5377	-0.1			KRW	1,149	+0.7		Shanghai	3,340	-0.2	11.4	Coffee	128.5	-0.7
NZD/JPY	81.31	+0.1			TWD	30.39	+0.2		ASX 200	5,670	+0.1	3.6	W/M powder	3180.0	+0.3
NZD/CAD	0.8987	+0.0			PHP	50.94	-0.2		NZX 50	7,914	-0.0	7.8	<b>Australian Futures</b>		
NZ TWI	76.41	+0.4											3 year bond	97.81	0.00
													10 year bond	97.15	0.00

  

Interest Rates						
	Rates		Swap Yields		Benchmark 10 Yr Bonds	
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day
USD	1.25	1.33	1.71	2.27	USD	2.31 0.00
AUD	1.50	1.71	2.04	2.98	AUD	2.86 0.07
NZD	1.75	1.95	2.21	3.26	NZD	2.98 0.02
EUR	0.00	0.06	-0.16	0.92	GER	0.48 0.01
GBP	0.25	0.33	0.82	1.41	GBP	1.38 -0.01
JPY	-0.05	-0.04	0.04	0.26	JPY	0.07 0.02
CAD	1.00	1.17	1.89	2.37	CAD	2.12 -0.02

  

NZ Government Bonds				NZ Swap Yields	
	Last	% Day	% Year	Last	
NZGB 3 04/15/20	2.08	-0.01		1 year	2.03 0.00
NZGB 6 05/15/21	2.24	-0.02		2 year	2.21 0.00
NZGB 5 1/2 04/15/23	2.55	-0.02		5 year	2.74 0.03
NZGB 2 3/4 04/15/25	2.82	0.00		7 year	3.00 0.04
NZGB 4 1/2 04/15/27	2.98	0.01		10 year	3.26 0.05
NZGB 3 1/2 04/14/33	3.33	0.02		15 year	3.49 0.05
NZGB 2 3/4 04/15/37	3.54	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 06:49

Source: Bloomberg

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