

30 August 2017

Events Round-Up

JN: Jobless Rate, Jul: 2.8 vs 2.8 exp.

JN: Overall Household Spending YoY, Jul: -0.2 vs 0.7 exp.

GE: GfK Consumer Confidence, Sep: 10.9 vs 10.8 exp.

US: C.B. Consumer Confidence, Aug: 122.9 vs 120.4 exp.

Good Morning

Shortly after we pushed the send button yesterday, news broke that North Korea had fired a missile toward Japan. Any prior thoughts of a quiet session disappeared as risk sentiment soured. This saw equities drop, safe havens like the JPY, CHF, and gold higher, while commodity currencies like the AUD and NZD were sold.

Japan called the latest provocation an 'unprecedented, grave and serious threat' and asked the UN Security Council to hold an emergency meeting. US President Trump said the US will consider 'all options' having earlier discussed the issue with Japanese Prime Minister Abe.

Overnight, sentiment has recovered somewhat as the market speculates tension will not escalate further, bringing some reversal of earlier moves.

US equities are currently marginally higher, after futures markets had previously been down as much as 0.9%. Asian equity markets closed mostly lower yesterday, while the EuroStoxx50 closed down nearly 1%.

Having dipped below 108.30, USD/JPY has fully recovered its post-missile losses to currently sit around 109.80, to be up 0.5%.

EUR pushed as high as 1.2070 overnight after breaking resistance at 1.20 and as the USD was under pressure. Another strong EU consumer confidence reading doing the single currency no harm. But as the USD recovered, supported by a strong consumer confidence reading in the US itself, EUR has drifted back below the 1.20 mark currently sitting around 1.1980.

The DXY US dollar index is little changed at 92.3, with North Korean tensions and the impact from Hurricane Harvey providing no reason for the US dollar to bounce. Estimates for damages caused by the hurricane are varied but climbing, with some as high as \$US100b, as the storm recharged in the Gulf of Mexico and unleashed yet more catastrophic rain in Houston and South Eastern Texan.

AUD/USD reversed yesterday's losses overnight as risk sentiment recovered. After falling below 0.7910, AUD/USD

rose to over 0.7980, before settling around 0.7960 currently. NZD/USD followed a similar trajectory washing around with risk sentiment and USD moves, dipping to around 0.7220 shortly after the local close, rising toward 0.7300 overnight, before easing back to around 0.7250 currently. Risk sentiment is likely to remain in the driving seat for now. NZD/JPY has lifted from a low around 78.3 yesterday to sit just above 79.6 currently. NZD/AUD is little changed at around 0.9120.

The NZD saw a mild dip yesterday as the NZ Government confirmed 3 more farms with the Mycoplasma Bovis cattle disease, taking the total to 6. More cases are expected as testing continues. But the market brushed it off as encouragingly there is no evidence of disease spread other than by close animal contact.

An uneventful US Treasury bill auction overnight won't stop the market fretting about the US debt ceiling. This, along with difficult NAFTA negotiations, geopolitical tensions, and Harvey's impact have combined to see the market slightly reduce its expectations of Fed tightening.

US 10 year Treasury yields fell as much as 5bps shortly after the local close yesterday as risk sentiment hit its nadir. Yields dropped down towards 2.08%, their lowest level since November last year. Some recovery then ensued as risk sentiment improved, supported by stronger consumer confidence, with yields now back to around 2.13%, although still down about 3bps from this time yesterday.

NZ swap and bond yields fell yesterday, as the missile-induced global risk off tone weighed. This was most pronounced in the longer end with NZ 10 year swap yields down more than 4bps to just under 3.09%. Downward pressure looks set to remain today given offshore moves. Low long end yields continued recent curve flattening as NZ 2 year swap yields fell 2bps to 2.165%. The latter remaining within the 2.15% to 2.20% range over recent weeks, anchored by expectations that the RBNZ will be on hold for a long time. We don't expect this afternoon's speech by RBNZ Governor, Graeme Wheeler, to give any forward policy guidance given its title 'Reflections on the stewardship of the Reserve Bank'. It will be more of a look back than a look forward.

Looking ahead, US ADP employment and German inflation will garner some interest as will President Trump's expected tax announcement, although the market is likely to take it with a grain of salt until it sees some action. Focus for now remains on North Korean tensions and the impact of Hurricane Harvey.

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Coming Up

| | Period | Cons. | Prev. | NZT |
|---------------------------|--------|-------|-------|-------|
| NZ Building Permits MoM | Jul | | -1 | 10:45 |
| JN Retail Sales MoM | Jul | 0.3 | 0.2 | 11:50 |
| NZ RBNZ's Wheeler speaks | | | | 13:30 |
| AU Construction Work Done | 2Q | 1.0 | -0.7 | 13:30 |
| AU Building Approvals MoM | Jul | -5.0 | 10.9 | 13:30 |
| EC Economic Confidence | Aug | 111.3 | 111.2 | 21:00 |
| GE CPI EU Harmonized MoM | Aug P | 0.1 | 0.4 | 00:00 |
| GE CPI EU Harmonized YoY | Aug P | 1.7 | 1.5 | 00:00 |
| US ADP Employment Change | Aug | 185 | 178 | 00:15 |
| US GDP Annualized QoQ | 2Q S | 2.7 | 2.6 | 00:30 |
| US Core PCE QoQ | 2Q S | 0.9 | 0.9 | 00:30 |

Source: Bloomberg, BNZ

| Foreign Exchange | | | | | Equities | | | | Commodities** | | | | | | |
|---------------------------------|--------|-------|--------|--------|----------------------------|---------|-------|---------------------|-----------------------|--------|---------|------|---------------------------|--------|------|
| Indicative overnight ranges (*) | | | | | Major Indices | | | | Price | | | | | | |
| | Last | % Day | Low | High | | Last | % Day | % Year | | Last | Net Day | | | | |
| NZD | 0.7254 | -0.0 | 0.7218 | 0.7299 | CHF | 0.9553 | -0.0 | | S&P 500 | 2,448 | +0.1 | 12.3 | Oil (Brent) | 51.91 | +0.1 |
| AUD | 0.7955 | -0.1 | 0.7922 | 0.7983 | SEK | 7.931 | -0.4 | | Dow | 21,876 | +0.3 | 18.2 | Oil (WTI) | 46.45 | -0.2 |
| EUR | 1.1983 | +0.0 | 1.1972 | 1.2070 | NOK | 7.747 | -0.1 | | Nasdaq | 6,310 | +0.4 | 20.6 | Gold | 1313.1 | +0.3 |
| GBP | 1.2924 | -0.1 | 1.2918 | 1.2979 | HKD | 7.825 | +0.0 | | Stoxx 50 | 3,388 | -1.0 | 13.0 | HRC steel | 621.0 | +0.0 |
| JPY | 109.79 | +0.5 | 108.27 | 109.73 | CNY | 6.597 | -0.3 | | FTSE | 7,337 | -0.9 | 7.3 | CRB | 177.5 | -0.3 |
| CAD | 1.2530 | +0.2 | | | SGD | 1.356 | +0.1 | | DAX | 11,946 | -1.5 | 13.3 | Wheat Chic. | 429.8 | +0.4 |
| NZD/AUD | 0.9119 | +0.1 | | | IDR | 13,340 | +0.0 | | CAC 40 | 5,032 | -1.1 | 13.7 | Sugar | 13.82 | -3.4 |
| NZD/EUR | 0.6054 | -0.0 | | | THB | 33.19 | +0.0 | | Nikkei | 19,363 | -0.4 | 15.8 | Cotton | 70.56 | +0.7 |
| NZD/GBP | 0.5613 | +0.1 | | | KRW | 1,126 | +0.5 | | Shanghai | 3,365 | +0.1 | 9.4 | Coffee | 128.7 | -2.1 |
| NZD/JPY | 79.64 | +0.5 | | | TWD | 30.15 | +0.1 | | ASX 200 | 5,669 | -0.7 | 3.5 | WM powder | 3235.0 | -0.5 |
| NZ TWI | 76.15 | +0.0 | | | PHP | 51.00 | -0.1 | | NZX 50 | 7,738 | -1.1 | 4.7 | Australian Futures | | |
| Interest Rates | | | | | NZ Government Bonds | | | | NZ Swap Yields | | | | | | |
| | Rates | | | | Benchmark 10 Yr Bonds | | Last | | | Last | | | | | |
| | Cash | 3Mth | 2 Yr | 10 Yr | Last | Net Day | | | | | | | | | |
| USD | 1.25 | 1.32 | 1.53 | 2.07 | USD | 2.13 | -0.03 | NZGB 3 04/15/20 | 2.01 | -0.02 | 1 year | 2.02 | -0.01 | | |
| AUD | 1.50 | 1.71 | 1.94 | 2.80 | AUD | 2.63 | -0.04 | NZGB 6 05/15/21 | 2.15 | -0.03 | 2 year | 2.17 | -0.02 | | |
| NZD | 1.75 | 1.95 | 2.17 | 3.09 | NZD | 2.86 | -0.04 | NZGB 5 1/2 04/15/23 | 2.44 | -0.03 | 5 year | 2.61 | -0.03 | | |
| EUR | 0.00 | 0.06 | -0.19 | 0.79 | GER | 0.34 | -0.03 | NZGB 2 3/4 04/15/25 | 2.70 | -0.03 | 7 year | 2.85 | -0.04 | | |
| GBP | 0.25 | 0.28 | 0.54 | 1.10 | GBP | 1.00 | -0.05 | NZGB 4 1/2 04/15/27 | 2.86 | -0.04 | 10 year | 3.09 | -0.04 | | |
| JPY | -0.06 | -0.03 | 0.01 | 0.20 | JPY | 0.01 | -0.00 | NZGB 3 1/2 04/14/33 | 3.24 | -0.04 | 15 year | 3.34 | -0.04 | | |
| CAD | 0.75 | 1.17 | 1.58 | 2.12 | CAD | 1.84 | -0.03 | NZGB 2 3/4 04/15/37 | 3.49 | -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 07:30

Source: Bloomberg

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