

30 November 2017



Events Round-Up

JN: Retail sales (m/m%), Oct: 0.0 vs. 0.2 exp.

EC: Economic confidence, Nov: 114.6 vs. 114.6 exp.

GE: CPI EU Harmonised (m/m%), Nov: 0.3 vs. 0.2 exp.

US: GDP (annlsd. q/q 2nd estimate), Q3: 3.3 vs. 3.2 exp.

US: Pending home sales (m/m%), Oct: 3.5 vs. 1.0 exp.

Good Morning

GBP has made further gains on optimism around Brexit talks, while global rates are a lot higher overnight.

There has been more action in equity and bond markets than currencies overnight, the latter showing only small movements apart from GBP. US equities are showing a significant rotation out of IT stocks and into financials and telcos, with the net result being little change in the S&P500 index.

In the bond market, yields are up across the board, led by Europe. The 10-year government bond rate is up 9bps to 1.34% in the UK, up 5bps to 0.38% in Germany and up 5bps to 2.38% in the US.

UK rates and GBP are higher, making further gains after reports came through yesterday morning that a divorce bill has been agreed by the EU and UK. There has been no further news but the market is obviously taking a positive view that a key stumbling block – the Irish border issue – will be resolved early next week that will allow trade talks to finally begin. There's still a long, long way to go and the UK seems to be bowing to EU demands, but the positive vibe around Brexit negotiations sees GBP up another 0.8% to 1.3445, taking the cumulative gain since early yesterday over 1½%. NZD/GBP is down 0.8% to 0.5130.

Adding to the poor sentiment for the bond market, Germany's preliminary CPI figure for November was higher than expected, taking the annual gain up to 1.8%. Meanwhile, economic confidence amongst businesses and consumers in the euro-area rose as expected, taking it to a 17-year high. The data seemed to have more impact on the bond market than the currency market, with EUR only slightly higher at 1.1860.

US GDP growth for Q3 was revised slightly higher to an above-trend 3.3% pace while pending home sales were much stronger than expected. But higher UST yields

seemed to be more influenced by the gain in European rates than the data. The 10-year Treasury rate met some resistance just under the 2.40% mark, solidifying that level as a marker of technical resistance. For a change the curve was slightly steeper, with the 2-year rate up a more moderate 2bps to 1.77%. Fed Chair Yellen's testimony to lawmakers was fairly uneventful as she reiterated previously made points on growth, inflation and the policy outlook. With one foot out the door, she wasn't expected to offer any fresh views and the market didn't pay too much attention.

The market also seemed to ignore North Korea's launch of another ICBM test. The rogue nation declared that it could now hit the US with a nuclear weapon. Trump responded by talking about new sanctions against the country. Rising global rates than the missile launch had more impact on the yen. USD/JPY rose as high as 112.15 but has since retreated to 111.80, up 0.3% for the day.

Closer to home, the NZD is around where it closed the local session at 0.6890, after meeting some resistance around 0.6930 overnight. The RBNZ's Financial Stability Report had a fairly muted impact on the market, even though it surprised some by modestly easing LVR restrictions. It seemed like a sensible move to us, with house price inflation now moderate, softer credit growth and the banking system much better placed to handle a shock. We expect further relaxation of restrictions over the next year or two. Acting Governor Spencer indicated that macro prudential policy would be reviewed on a quarterly basis.

More support for the housing market helps grease the wheels for an eventual tightening in monetary policy late next year in our view. But the market didn't act that way, with slight downward pressure on the rates curve, with swap rates down 2-3bps. Global forces should see a reversal of that move today.

The economic calendar ahead is very heavy. In the local trading session, the ANZ business outlook survey is expected to show another slump in business confidence and weaker activity indicators, being the first clean read since the formation of the new government. We wouldn't read too much into it, as confidence tends to take an enduring step lower under a Labour-led government, and negative growth outcomes don't necessarily follow. China PMI data soon follow. Tonight the key indicators are euro-area CPI figures and the US PCE deflators.

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Coming Up

| | Period | Cons. | Prev. | NZT |
|-----------------------------------|--------|-------|-------|-------|
| NZ Building permits (m/m%) | Oct | | -2.3 | 10:45 |
| JN Industrial production (m/m%) | Oct P | 1.8 | -1.0 | 12:50 |
| NZ ANZ survey activity outlook | Nov | 22.2 | | 13:00 |
| UK GfK consumer confidence | Nov | -11 | -10 | 13:01 |
| AU Private capital expend. (q/q%) | Q3 | 1 | 0.8 | 13:30 |
| AU Building approvals (m/m%) | Oct | -1 | 1.5 | 13:30 |
| CH Manufacturing PMI | Nov | 51.4 | 51.6 | 14:00 |
| CH Non-manufacturing PMI | Nov | | 54.3 | 14:00 |
| GE Unemployment rate (%) | Nov | 5.6 | 5.6 | 21:55 |
| EC Unemployment rate (%) | Oct | 8.9 | 8.9 | 23:00 |
| EC CPI Estimate (y/y%) | Nov | 1.6 | 1.4 | 23:00 |
| EC CPI Core (y/y%) | Nov A | 1.0 | 0.9 | 23:00 |
| US Personal income (m/m%) | Oct | 0.3 | 0.4 | 02:30 |
| US Personal spending (m/m%) | Oct | 0.3 | 1.0 | 02:30 |
| US PCE deflator (m/m%) | Oct | 0.1 | 0.4 | 02:30 |
| US PCE deflator core (m/m%) | Oct | 0.2 | 0.1 | 02:30 |
| US Chicago PMI | Nov | 63 | 66.2 | 03:45 |

Source: Bloomberg, BNZ

| Foreign Exchange | | | | | | Equities | | | | Commodities** | | | | |
|---------------------------------|--------|-------|-------------|--------|-----------------------|---------------------|---------------------|---------------------|--------|----------------|----------------|---------------------------|--------|-------|
| Indicative overnight ranges (*) | | | | | Other FX | | Major Indices | | | | Price | | | |
| | Last | % Day | Low | High | | Last | % Day | | | Last | Net Day | | | |
| NZD | 0.6893 | -0.1 | 0.6877 | 0.6930 | CHF | 0.9837 | +0.0 | S&P 500 | 2,624 | -0.1 | 19.0 | Oil (Brent) | 63.12 | -1.6 |
| AUD | 0.7572 | -0.3 | 0.7552 | 0.7600 | SEK | 8.353 | +0.1 | Dow | 23,885 | +0.3 | 24.9 | Oil (WTI) | 57.45 | -2.0 |
| EUR | 1.1860 | +0.2 | 1.1818 | 1.1883 | NOK | 8.236 | -0.0 | Nasdaq | 6,814 | -1.1 | 26.7 | Gold | 1282.8 | -0.8 |
| GBP | 1.3442 | +0.8 | 1.3357 | 1.3448 | HKD | 7.809 | +0.1 | Stoxx 50 | 3,589 | +0.2 | 18.1 | HRC steel | 629.0 | +0.6 |
| JPY | 111.81 | +0.3 | 111.38 | 112.15 | CNY | 6.617 | +0.1 | FTSE | 7,396 | -0.9 | 9.2 | CRB | 191.3 | -0.2 |
| CAD | 1.2857 | +0.3 | | | SGD | 1.347 | +0.1 | DAX | 13,056 | +0.0 | 22.9 | Wheat Chic. | 433.0 | +1.1 |
| NZD/AUD | 0.9103 | +0.2 | | | IDR | 13,500 | -0.1 | CAC 40 | 5,400 | +0.1 | 18.6 | Sugar | 15.15 | +0.7 |
| NZD/EUR | 0.5812 | -0.2 | | | THB | 32.58 | -0.0 | Nikkei | 22,597 | +0.5 | 23.4 | Cotton | 74.77 | +1.1 |
| NZD/GBP | 0.5128 | -0.9 | | | KRW | 1,077 | -0.7 | Shanghai | 3,338 | +0.1 | 1.7 | Coffee | 131.7 | +1.8 |
| NZD/JPY | 77.07 | +0.2 | | | TWD | 29.97 | -0.1 | ASX 200 | 6,011 | +0.4 | 10.1 | WM powder | 2910.0 | +0.0 |
| NZD/CAD | 0.8862 | +0.2 | | | PHP | 50.23 | -0.2 | NZX 50 | 8,142 | +0.0 | 18.0 | Australian Futures | | |
| NZ TWI | 72.99 | -0.0 | | | | | | | | | | 3 year bond | 98.08 | -0.01 |
| | | | | | | | | | | | | 10 year bond | 97.48 | -0.01 |
| Interest Rates | | | | | | NZ Government Bonds | | | | NZ Swap Yields | | | | |
| | 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 | 1.94 | 2.37 | USD | 2.38 | 0.05 | NZGB 3 04/15/20 | 1.93 | -0.01 | 1 year | 2.00 | -0.00 | |
| AUD | 1.50 | 1.73 | 1.88 | 2.69 | AUD | 2.47 | -0.02 | NZGB 6 05/15/21 | 2.06 | -0.02 | 2 year | 2.15 | -0.02 | |
| NZD | 1.75 | 1.92 | 2.15 | 3.09 | NZD | 2.73 | -0.06 | NZGB 5 1/2 04/15/23 | 2.34 | -0.03 | 5 year | 2.60 | -0.02 | |
| EUR | 0.00 | 0.06 | -0.18 | 0.84 | GER | 0.39 | 0.05 | NZGB 2 3/4 04/15/25 | 2.60 | -0.04 | 7 year | 2.84 | -0.02 | |
| GBP | 0.50 | 0.52 | 0.86 | 1.40 | GBP | 1.34 | 0.09 | NZGB 4 1/2 04/15/27 | 2.73 | -0.06 | 10 year | 3.09 | -0.03 | |
| JPY | -0.05 | -0.02 | 0.04 | 0.26 | JPY | 0.03 | -0.01 | NZGB 3 1/2 04/14/33 | 3.10 | -0.04 | 15 year | 3.33 | -0.03 | |
| CAD | 1.00 | 1.17 | 1.77 | 2.22 | CAD | 1.88 | 0.04 | NZGB 2 3/4 04/15/37 | 3.33 | -0.05 | | | | |

* 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 06:42

Source: Bloomberg

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