

30 October 2017



## Events Round-Up

JN: CPI (y/y%), Sep: 0.7 vs. 0.7 exp.

JN: CPI ex fresh food, energy (y/y%), Sep: 0.2 vs. 0.2 exp.

US: GDP (annualised q/q%), Q3: 3.0 vs. 2.6 exp.

US: U. of Mich. cons. sent., Oct F: 100.7 vs. 100.7

## Good Morning

Commodity currencies outperformed on Friday, with the NZD leading the charge, while global rates fell.

Strong earnings results from a number of large tech companies sent US equities to fresh record highs and the VIX index back below 10. Supporting the move was slightly stronger than expected US Q3 GDP growth of 3.0%, the only data release of note. The USD was on the ascendency ahead of that release, adding further gains after the ECB's dovish taper announcement the previous session. The USD major currency TWI reached a fresh 3-month high after the GDP release, but was knocked back soon after following a headline that Trump was leaning towards Powell for the Fed Chair role, according to insiders. Trump will announce his choice for the next Fed chair this week.

For a change, the NZD was the best performing of the majors, although gains were modest, closing the week around 0.6875, after earlier equalling the year-to-date low of 0.6818 on Friday afternoon. There was no NZ specific news and it might be a sign that recent selling pressure has been exhausted. With portfolio flows driving recent NZD weakness, the RBNZ will be obliged to see the weaker currency as an inflationary force when it releases its new set of forecasts on 9 November.

Other commodity currencies also outperformed on Friday, supported by higher oil prices. Brent crude broke up through the USD60 per barrel mark for the first time since July 2015, rising by around 2% for day. Australia's government lost its razor-thin majority after the high court ruled against Deputy PM Joyce in his citizenship case, but the small negative impact on the AUD was short-lived. Joyce looks set to regain his seat in a December by-election after renouncing his NZ citizenship and in the meantime the government has support on confidence and supply by at least one independent MP. NZD/AUD ended the week on a positive note around 0.8960.

EUR was the weakest of the majors, falling as low as 1.1575 before finding some support and it closed the day down 0.4% at around 1.1610. As well as the aftermath of the ECB meeting, political turmoil in Spain did the common currency no favours. Catalan's Parliament declared independence from Spain and this was followed by Spain's government setting in motion the process of taking over the rebel region. NZD/EUR closed the session up 0.9% at around 0.5925.

JPY continued to follow the path of US Treasury yields. Lower rates saw USD/JPY fall 0.3% to 113.70, after earlier reaching a 3-month high of 114.45. The US 10-year rate hovered around the 2.45-2.47% mark until the headlines emerged about Powell having the inside running for the Fed Chair role. By the end of the session, the 10-year rate had fallen down to 2.41%, some 5bps below the level prevailing at the NZ close. Safe-haven flows out of Spain and into Germany saw its 10-year rate fall 3bps to 0.38%, with the ECB's dovish taper announcement also still in the minds of investors.

NZ rates were slightly higher on Friday, with 10-year bond and swap rates up 2bps to 3.03% and 3.25% respectively, a reflection of the prior day's upside to UST yields. But the NZ-US 10-year spread continues to show a lack of risk premium for the uncertain policy outlook under the change of government and the likely much higher debt programme over coming years, likely in the order of \$2-3bn per annum. At the NZ close, the NZ-US 10-year spread was just 57bps, at the lower end of its range this year.

A TV interview with the new Finance Minister Robertson over the weekend supports our view that the market has nothing to fear about the mooted changes to the RBNZ Act. The Bank will maintain its focus on price stability, along with being mindful of maximising employment, along the same lines at present and similar to the RBA and Fed operating frameworks. No numerical target for the unemployment rate target will be given.

In the day ahead, the local trading session should be quiet but lower US yields on Friday night will act as a downward force on the NZ curve today. It's a big week ahead with US employment data at the end of the week, NZ employment and wages data, and an expected BoE tightening in monetary policy the highlights.

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Coming Up

	Period	Cons.	Prev.	NZT
JN Retail sales (m/m%)	Sep	0.8	-1.7	12:50
EC Economic confidence	Oct	113.3	113.0	23:00
US Personal income (m/m%)	Sep	0.4	0.2	01:30
US Personal spending (m/m%)	Sep	0.9	0.1	01:30
US PCE deflator (m/m%)	Sep	0.4	0.2	01:30
US PCE core (y/y%)	Sep	1.3	1.3	01:30
GE CPI EU harmonised (m/m%)	Oct P	0.1	0.0	02:00
GE CPI EU harmonised (y/y%)	Oct P	1.7	1.8	02:00

Source: Bloomberg, BNZ

Foreign Exchange					Equities				Commodities**					
Indicative overnight ranges (*)					Other FX				Major Indices			Price		
	Last	% Day	Low	High		Last	% Day			Last	Net Day		Last	Net Day
NZD	0.6877	+0.6	0.6823	0.6877	CHF	0.9981	+0.1	S&P 500	2,581	+0.8	21.4	Oil (Brent)	60.44	+1.9
AUD	0.7677	+0.2	0.7625	0.7677	SEK	8.372	+0.3	Dow	23,434	+0.1	29.0	Oil (WTI)	53.90	+2.4
EUR	1.1608	-0.4	1.1575	1.1644	NOK	8.148	-0.3	Nasdaq	6,701	+2.2	29.1	Gold	1271.8	+0.2
GBP	1.3128	-0.3	1.3070	1.3140	HKD	7.804	+0.0	Stoxx 50	3,652	+0.4	18.6	HRC steel	605.0	+0.0
JPY	113.67	-0.3	113.71	114.45	CNY	6.651	+0.1	FTSE	7,505	+0.2	7.3	CRB	186.9	+0.5
CAD	1.2808	-0.3			SGD	1.365	-0.2	DAX	13,218	+0.6	23.6	Wheat Chic.	445.3	-1.1
NZD/AUD	0.8958	+0.2			IDR	13,609	+0.2	CAC 40	5,494	+0.8	20.8	Sugar	14.63	+3.7
NZD/EUR	0.5924	+0.9			THB	33.23	-0.1	Nikkei	22,008	+1.2	26.1	Cotton	68.20	+0.0
NZD/GBP	0.5238	+0.8			KRW	1,130	+0.5	Shanghai	3,417	+0.3	10.1	Coffee	126.6	+1.6
NZD/JPY	78.17	+0.3			TWD	30.27	+0.1	ASX 200	5,903	-0.2	11.7	WM powder	2930.0	-0.2
NZD/CAD	0.8808	+0.4			PHP	51.76	-0.1	NZX 50	8,085	-0.0	16.4	<b>Australian Futures</b>		
NZ TWI	73.20	+0.6										3 year bond	97.94	0.04
												10 year bond	97.24	0.06

  

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	1.38	1.82	2.38	USD	2.41	-0.05	NZGB 3 04/15/20	2.05	0.01	1 year	2.02	0.00
AUD	1.50	1.69	1.93	2.91	AUD	2.77	0.02	NZGB 6 05/15/21	2.21	0.02	2 year	2.17	0.00
NZD	1.75	1.95	2.17	3.25	NZD	3.03	0.02	NZGB 5 1/2 04/15/23	2.53	0.02	5 year	2.69	0.01
EUR	0.00	0.06	-0.20	0.86	GER	0.38	-0.03	NZGB 2 3/4 04/15/25	2.82	0.02	7 year	2.96	0.01
GBP	0.25	0.42	0.83	1.40	GBP	1.35	-0.04	NZGB 4 1/2 04/15/27	3.03	0.02	10 year	3.25	0.02
JPY	0.00	-0.04	0.04	0.26	JPY	0.07	0.00	NZGB 3 1/2 04/14/33	3.39	0.02	15 year	3.51	0.02
CAD	1.00	1.17	1.78	2.32	CAD	1.99	-0.05	NZGB 2 3/4 04/15/37	3.57	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: NY close Sat morn

Source: Bloomberg

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