

31 August 2017

Events Round-Up

NZ: Building Permits MoM, Jul: -0.7 vs -1.0 prev.

JN: Retail Sales MoM, Jul: 1.1 vs 0.3 exp.

NZ: RBNZ's Wheeler speech

AU: Construction Work Done, Q2: 9.3 vs 1.0 exp.

AU: Building Approvals MoM, Jul: -1.7% vs -5.0 exp.

EC: Economic Confidence, Aug: 111.9 vs 111.3 exp.

GE: CPI EU Harmonized MoM, Aug P: 0.2 vs 0.1 exp.

GE: CPI EU Harmonized YoY, Aug P: 1.8 vs 1.7 exp.

US: ADP Employment Change, Aug: 237 vs 185 exp.

US: GDP Annualized QoQ, Q2 S: 3.0 vs 2.7 exp.

US: Core PCE QoQ, Q2 S: 0.9 vs 0.9 exp.

Good Morning

Positive economic news overnight saw equity markets rise, yields edge up and the USD dollar lurch higher.

Making a change from recent sessions, economic news had some influence on markets overnight. ADP employment showed the US added 237k jobs in August, beating expectations of 185k. It offers encouragement for official payrolls data on Friday and is likely to keep the USD on the front foot for now. The positive vibe was enhanced shortly after when upward revisions to US Q2 GDP growth were bigger than anticipated. Growth was revised to an annualised pace of 3.0%, its fastest pace in two years.

This put the USD in the ascendancy with broad-based gains with perhaps some extra support from month end buying. The DXY US Dollar Index currently sits up 0.7%.

USD gains were checked at one point when President Trump tweeted that 'talking is not the answer' to North Korea's nuclear threats. The tweet saw USD/JPY pullback from its initial push above 110.40. The pair currently sits just under 110.30, up 0.5% on the day.

EUR dipped back below 1.19, down around 0.7% to its lowest level this week. This was despite Eurozone economic confidence rising to its highest level in a decade to 111.9 in August. Business, industry and services confidence all rose again. But strong economic news from Europe is less of a surprise now and there may be some concern that ECB President Draghi will talk down the single currency at next week's meeting, even as we get closer to discussion about slowing down the ECB's asset

purchase programme. Slightly higher than expected German inflation overnight had little influence.

The NZD swooned yesterday as RBNZ Governor Wheeler said 'a lower NZD was needed' in a speech, despite such language being nothing new from the central bank. Not surprisingly, the dip didn't last long. But USD strength took over through the night seeing NZD/USD testing the bottom of its recent 0.7190 to 0.7300 range this morning. We see 0.7190 as a key area of resistance that will likely be further tested should today's NZ business confidence data wobble down, perhaps on election jitters.

NZD/AUD also dipped yesterday post the RBNZ speech and stronger than expected Australian data for Q2 construction work done data and July building approvals. NZD/AUD tested support just above 0.9070, but has since recovered, and traded a tight range overnight. The pair currently sits around 0.9110, with eyes on today's NZ business confidence, AU capital expenditure and Chinese PMI data.

GBP managed to hold its own against the stronger greenback, currently sitting flat at about 1.2920. This sees NZD/GBP down 0.8%, at around 0.5570, eyeing range lows just above 0.5560.

US 10 year Treasury yields pushed up through 2.15% on the stronger US data, before easing back. Yields currently sit around 2.14%, up 1bp on the day. As we suspected, there were few details in Trump's speech on tax reform.

S&P's Chief Economist pointed out overnight, 'Failure to raise the debt limit would likely be more catastrophic to the economy than the 2008 failure of Lehman Brothers', adding that 'a government shutdown would shave 0.2 percentage points off real GDP for each week it continues'. The US debt limit is ultimately expected to be lifted, but it remains a major tail risk, and will remain in focus over the coming month.

Yesterday, NZ yields essentially reversed the previous day's missile-induced declines and undid the curve flattening. NZ 2-year swap rose 2bps to just under 2.19%, NZ 5-year increased 3.5bps to 2.645% and NZ 10-swap added a touch over 3bps to 3.12%. The broad move higher was persistent through the day, uninterrupted by the afternoon RBNZ speech. But really, the local rates market remains void of broad direction.

There is a lot of data due over the coming 24 hours, with most focus likely on the ANZ business survey and Chinese PMIs. The other global data all looks to be a curtain-raiser to the important US ISM and payrolls data on Friday.

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Coming Up

	Period	Cons.	Prev.	NZT
UK GfK Consumer Confidence	Aug	-13	-12	11:01
JN Industrial Production MoM	Jul P	-0.3	2.2	11:50
NZ ANZ Activity Outlook	Aug		40.3	13:00
CH Manufacturing PMI	Aug	51.3	51.4	13:00
CH Non-manufacturing PMI	Aug		54.5	13:00
AU Private Capital Expenditure	2Q	0.2	0.3	13:30
GE Unemployment Claims Rate SA	Aug	5.7	5.7	19:55
EC Unemployment Rate	Jul	9.1	9.1	21:00
EC CPI Estimate YoY	Aug	1.4	1.3	21:00
EC CPI Core YoY	Aug A	1.2	1.2	21:00
US Personal Income	Jul	0.3	0	00:30
US Personal Spending	Jul	0.4	0.1	00:30
US PCE Deflator MoM	Jul	0.1	0	00:30
US PCE Deflator YoY	Jul	1.4	1.4	00:30
US PCE Core MoM	Jul	0.1	0.1	00:30
US PCE Core YoY	Jul	1.4	1.5	00:30
US Chicago Purchasing Manager	Aug	58.5	58.9	01:45
US Pending Home Sales MoM	Jul	0.4	1.5	02:00
NZ QV House Prices YoY	Aug		6.4	05:00

Source: Bloomberg, BNZ

Foreign Exchange						Equities				Commodities**				
Indicative overnight ranges (*)					Other FX		Major Indices				Price			
	Last	% Day	Low	High		Last	% Day			Last	Net Day			
NZD	0.7198	-0.8	0.7189	0.7264	CHF	0.9639	+0.8	S&P 500	2,458	+0.5	13.0	Oil (Brent)	50.77	-2.3
AUD	0.7901	-0.6	0.7890	0.7989	SEK	7.976	+0.5	Dow	21,860	-0.0	18.5	Oil (WTI)	46.04	-0.9
EUR	1.1890	-0.7	1.1883	1.1975	NOK	7.803	+0.7	Nasdaq	6,360	+0.9	21.8	Gold	1309.9	-0.4
GBP	1.2920	+0.0	1.2879	1.2938	HKD	7.825	+0.0	Stoxx 50	3,404	+0.5	12.3	HRC steel	638.0	+0.5
JPY	110.28	+0.5	109.75	110.44	CNY	6.594	-0.0	FTSE	7,365	+0.4	8.0	CRB	176.9	-0.4
CAD	1.2621	+0.9			SGD	1.358	+0.2	DAX	12,002	+0.5	12.6	Wheat Chic.	429.8	+0.0
NZD/AUD	0.9110	-0.1			IDR	13,346	+0.0	CAC 40	5,056	+0.6	13.4	Sugar	13.91	+0.7
NZD/EUR	0.6054	-0.1			THB	33.20	+0.0	Nikkei	19,507	+0.7	15.5	Cotton	71.47	+1.3
NZD/GBP	0.5571	-0.8			KRW	1,124	-0.2	Shanghai	3,364	-0.0	9.0	Coffee	128.2	-0.0
NZD/JPY	79.38	-0.3			TWD	30.13	-0.1	ASX 200	5,670	+0.0	4.4	WM powder	3240.0	-0.3
NZ TWI	75.75	-0.7			PHP	51.15	+0.3	NZX 50	7,775	+0.5	5.1	Australian Futures		
											3 year bond	97.99	0.01	
											10 year bond	97.34	-0.03	
Interest Rates						NZ Government Bonds				NZ Swap Yields				
Rates		Swap Yields		Benchmark 10 Yr Bonds										
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day	Last		Last					
USD	1.25	1.32	1.54	2.09	USD	2.14	0.01	NZGB 3 04/15/20	2.03	0.01	1 year	2.03	0.01	
AUD	1.50	1.71	1.95	2.83	AUD	2.68	0.05	NZGB 6 05/15/21	2.18	0.02	2 year	2.19	0.02	
NZD	1.75	1.98	2.19	3.12	NZD	2.89	0.03	NZGB 5 1/2 04/15/23	2.47	0.04	5 year	2.65	0.03	
EUR	0.00	0.06	-0.19	0.79	GER	0.36	0.02	NZGB 2 3/4 04/15/25	2.73	0.03	7 year	2.88	0.03	
GBP	0.25	0.28	0.54	1.12	GBP	1.03	0.03	NZGB 4 1/2 04/15/27	2.89	0.04	10 year	3.12	0.03	
JPY	-0.06	-0.03	0.02	0.21	JPY	0.01	0.00	NZGB 3 1/2 04/14/33	3.27	0.03	15 year	3.38	0.03	
CAD	0.75	1.17	1.58	2.13	CAD	1.84	-0.00	NZGB 2 3/4 04/15/37	3.52	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 07:42

Source: Bloomberg

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