

31 October 2017



Events Round-Up

JN: Retail sales (y/y%), Sep: 2.2 vs. 2.3 exp.
EC: Economic confidence, Oct: 114.0 vs. 113.3 exp.
US: Personal income (m/m%), Sep: 0.4 vs. 0.4 exp.
US: Personal spending (m/m%), Sep: 1.0 vs. 0.9 exp.
US: PCE core (y/y%), Sep: 1.3 vs. 1.3 exp.
GE: CPI EU harmonised (y/y%), Oct: 1.5 vs. 1.7 exp.

Good Morning

It has been a fairly quiet start to the week ahead of a busy economic calendar. The USD and rates are down slightly as talk of watered down tax reform emerges.

There have been a few market moving events but price action has been pretty modest overall as currency traders await month-end flows. The USD is slightly weaker, with the TWI majors index down 0.2%, after reports emerged that Trump's desired corporate tax rate reduction from 35% to 20% might be phased in over 5-years. This would make tax law easier to get passed, but obviously the economic and market impact would be more limited. Since that news, US equities have weakened and the S&P 500 index is currently down 0.3%, the US 10-year rate fell 3bps to 2.37%, after spending most of the session hovering around the 2.40% mark, and the USD weakened. There was no market reaction to the news that three people have been charged, including Trump's former election campaign manager, on various crimes including money laundering, after investigation into Trump-Russia links. Income and spending data were in line, as was the (low) PCE deflator, as indicated by previously released CPI data.

The NZD started the week on a soft note as hedge funds sold the currency after headline reports that the new Finance Minister suggested in a weekend TV interview that revising the RBNZ mandate could lead to lower interest rates if an employment target were included. It was a misleading headline and anyone who actually watched the interview would have noted how well the new Finance Minister came across from a markets' perspective – he talked of being fiscally responsible and that the RBNZ would maintain its focus on price stability. As we suggested yesterday, the market had nothing to fear about the mooted changes to the RBNZ Act. These changes will be some time away (more than a year?) and

in the meantime inflationary pressure looks to be rising, something the RBNZ might well acknowledge at next week's MPS. The NZD was lower across the board and fell to as low as 0.6833 before staging a recovery. It currently sits down slightly from last week's close at 0.6870. NZD/AUD followed a similar path and currently sits at 0.8950, down ever so slightly from the week-end close.

GBP is one of the best performers, up 0.6% to 1.3210 ahead of the BoE meeting later this week, where the Bank is expected to raise rates for the first time in a decade. EUR is up 0.2% to 1.1630, supported by reduced political risk in Spain. The Spanish government took control of the Catalan government with little resistance. In economic data, euro area economic confidence surged to its highest level in almost 17 years while German CPI data came in 0.2 percentage points below expectations, despite the country's very strong economic backdrop, highlighting the challenge the ECB faces in getting inflation higher. These stronger currencies see NZD/GBP down to 0.5200 and 0.5905 respectively.

Weaker German CPI data saw its 10-year rate fall 2bps to 0.37%. With UST yields dragged lower after the report on phasing in of tax cuts, the lower global rate environment has supported the yen and sees NZD/JPY down 0.6% to 77.7.

Lower US rates on Friday night saw NZ's yield curve dragged lower, with the 2-year swap rate down 1bps to 2.16% and the 10-year rate down 5bps to 3.20%. The 10-year government bond rate moved back below the 3% mark, falling 5bps to 2.98%.

There is plenty on the economic calendar today. The ANZ NZ business outlook survey pre-dates the coalition announcement reducing our interest, but there's plenty of offshore data to consider, including China PMI data, euro area CPI and GDP data and in the US employment costs and confidence data. The BoJ is expected to keep its very easy policy settings unchanged as it battles to generate some inflation with an empty toolbox.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ Building permits (m/m%)	Sep		10.2	10:45
JN Industrial production (m/m%)	Sep	-1.6	2	12:50
NZ ANZ activity outlook (net %)	Oct		29.6	13:00
UK GfK consumer confidence	Oct	-10	-9	13:01
CH Manufacturing PMI	Oct	52.1	52.4	14:00
CH Non-manufacturing PMI	Oct		55.4	14:00
JN BOJ 10y yield target		0.0	0.0	
EC Unemployment rate (%)	Sep	9	9.1	23:00
EC GDP (q/q%)	Q3	0.5	0.6	23:00
EC CPI (y/y%)	Oct	1.5	1.5	23:00
EC CPI core (y/y%)	Oct	1.1	1.1	23:00
US Employment cost index (q/q%)	Q3	0.7	0.5	01:30
US Chicago purchasing manager	Oct	60.0	65.2	02:45
US Conf. Board consumer confid.	Oct	121.0	119.8	03:00

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	0.6870	-0.1	0.6833	0.6876	CHF	0.9951	-0.3	S&P 500	2,572	-0.3	21.0	Oil (Brent)	60.51	+0.1
AUD	0.7677	+0.0	0.7656	0.7688	SEK	8.363	-0.1	Dow	23,368	-0.3	28.7	Oil (WTI)	54.03	+0.3
EUR	1.1633	+0.2	1.1602	1.1646	NOK	8.155	+0.1	Nasdaq	6,699	-0.2	29.1	Gold	1279.2	+0.5
GBP	1.3206	+0.6	1.3127	1.3215	HKD	7.800	-0.1	Stoxx 50	3,662	+0.3	18.9	HRC steel	605.0	+0.0
JPY	113.17	-0.4	113.03	113.76	CNY	6.647	-0.1	FTSE	7,488	-0.2	7.0	CRB	187.5	+0.3
CAD	1.2831	+0.2			SGD	1.361	-0.3	DAX	13,230	+0.1	23.7	Wheat Chic.	443.8	-0.4
NZD/AUD	0.8949	-0.1			IDR	13,582	-0.2	CAC 40	5,494	+0.5	20.8	Sugar	14.73	+0.5
NZD/EUR	0.5906	-0.4			THB	33.22	+0.0	Nikkei	22,012	+0.0	26.3	Cotton	68.82	+0.9
NZD/GBP	0.5202	-0.8			KRW	1,125	-0.5	Shanghai	3,390	-0.8	9.3	Coffee	126.8	-0.7
NZD/JPY	77.75	-0.6			TWD	30.20	-0.2	ASX 200	5,919	+0.3	11.3	WM powder	2955.0	+0.9
NZD/CAD	0.8815	-0.1			PHP	51.63	-0.3	NZX 50	8,144	+0.7	17.0	Australian Futures		
NZ TWI	73.11	-0.3										3 year bond	97.97	0.03
												10 year bond	97.28	0.05
Interest Rates						NZ Government Bonds				NZ Swap Yields				
	Rates		Swap Yields		Benchmark 10 Yr Bonds		Last		Last		Last			
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day								
USD	1.25	1.38	1.81	2.35	USD	2.38	-0.03	NZGB 3 04/15/20	2.02	-0.03	1 year	2.02	-0.01	
AUD	1.50	1.69	1.91	2.86	AUD	2.73	-0.04	NZGB 6 05/15/21	2.17	-0.04	2 year	2.16	-0.01	
NZD	1.75	1.94	2.16	3.20	NZD	2.98	-0.05	NZGB 5 1/2 04/15/23	2.48	-0.04	5 year	2.66	-0.03	
EUR	0.00	0.06	-0.20	0.85	GER	0.37	-0.02	NZGB 2 3/4 04/15/25	2.77	-0.05	7 year	2.93	-0.04	
GBP	0.25	0.43	0.83	1.39	GBP	1.34	-0.01	NZGB 4 1/2 04/15/27	2.98	-0.05	10 year	3.20	-0.05	
JPY	-0.04	-0.03	0.04	0.26	JPY	0.07	-0.00	NZGB 3 1/2 04/14/33	3.33	-0.05	15 year	3.45	-0.05	
CAD	1.00	1.17	1.77	2.30	CAD	1.96	-0.02	NZGB 2 3/4 04/15/37	3.52	-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 06:43

Source: Bloomberg

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