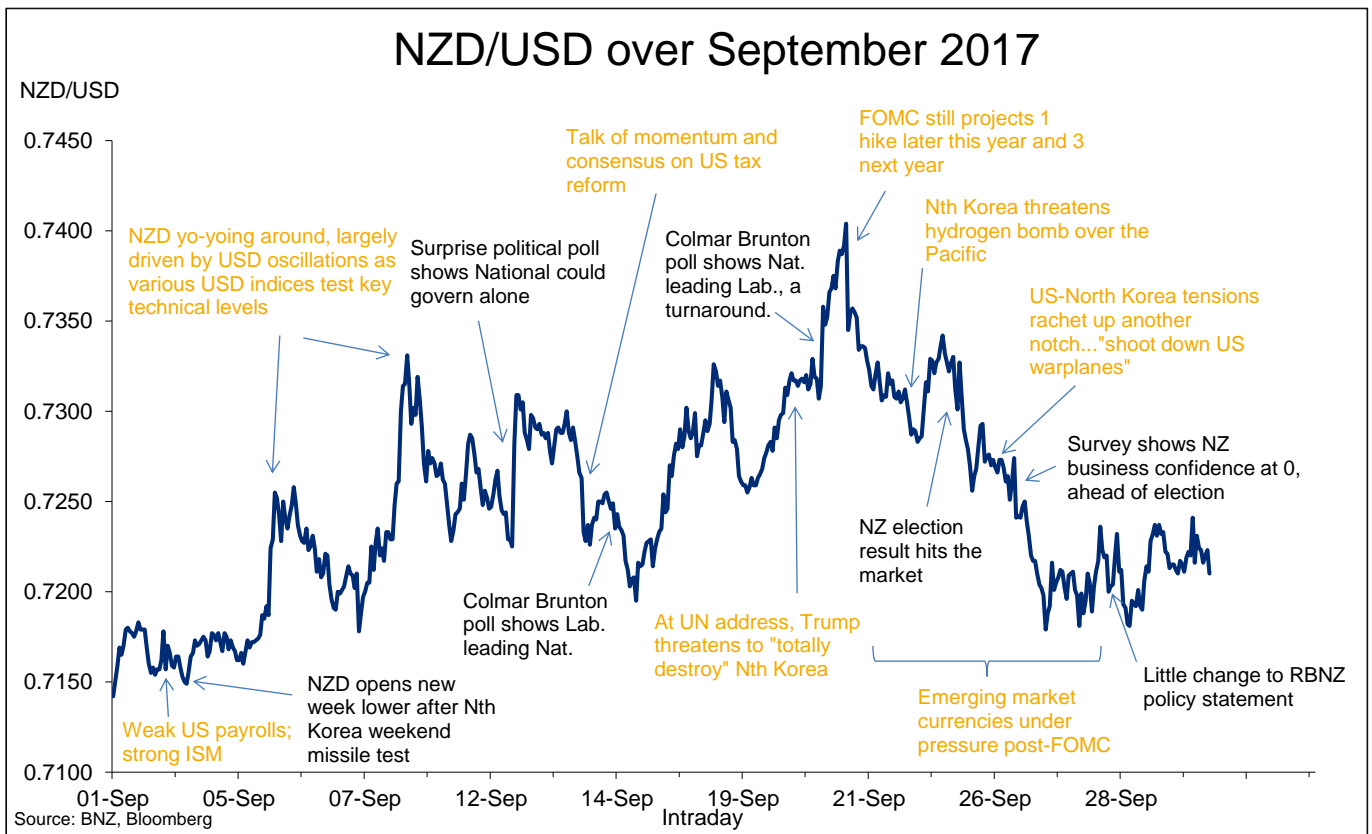


2 October 2017

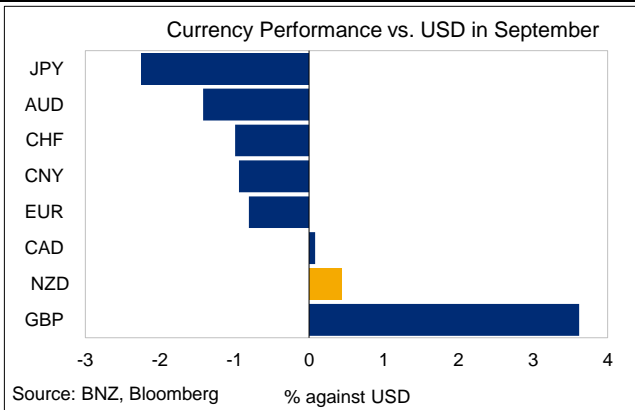
## NZD up on most crosses in September

- After a poor August, NZD gained against most major currencies
- GBP outperforms as BoE signals imminent rate hike
- Global rates higher as confidence in Fed tightening increases

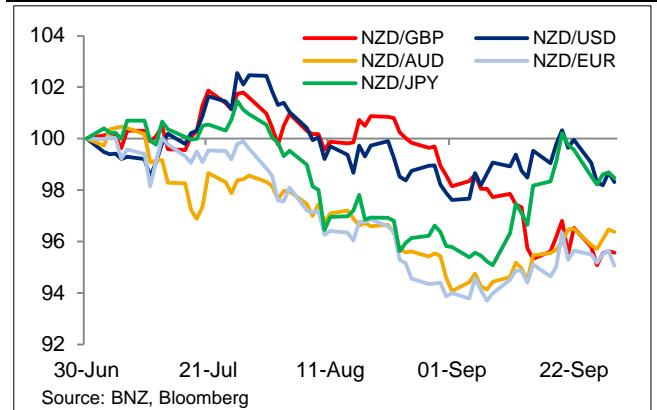


Quick Outlook		September ranges
NZD/USD	NZD cheap on our model considering lofty risk appetite level and high NZ commodity prices, so deserves to move higher. But USD recovery likely has further legs, so a battle between these forces.	0.7145 – 0.7433
NZD/AUD	The current hard vs. soft commodity price trend is in the NZD's favour and a continuation of this would see further recovery in this cross.	0.8975 – 0.9235
NZD/GBP	The move to a BoE tightening bias so soon was a shocker. Cross would fall further if more than one hike looks likely, but we are not convinced and a softer UK economy looks like a restraining force.	0.5340 – 0.5580
NZD/EUR	Consolidation phase until the ECB makes the next move. Risks for the cross lie to the downside beyond the very short term, as the euro-area economy remains solid.	0.5990 – 0.6190
NZD/JPY	Opposing forces: Higher global yields and BoJ QE policy are positive for the cross, but a fall in risk appetite, whenever that may occur, would be negative.	78.2 – 82.7
90-day BB	Flat, with little chance of monetary policy adjustment over coming months.	1.93% - 1.96%

**GBP a Clear Outperformer in September**



**NZD Lower Over the Last Quarter**



**Global equities continue to perform well**

September was marked by low volatility continuing and NZD/USD ending the month within 0.5% of where it began. Global equities continued to track higher, with the MSCI World Equities Index reaching a fresh record high and a solid gain of 2½%, supported by the backdrop of a broadly based global economic expansion.

**Risk appetite at a YTD-high**

After its poor run through August, the NZD showed signs of consolidation, as expected. In the lead-up to the election, volatility in political polls led to some modest intraday and daily swings in the NZD, but they weren't sustained. The positive risk sentiment backdrop was generally supportive for the NZD. Our risk appetite index reached its highest level this year of 84%, as the VIX index probed below 10 and credit spreads narrowed.

**USD shows signs of recovery**

Early in the month, the USD continued to steadily fall, something it has done for much of this year, but the market decided that enough was enough and, after breaching some key technical levels, it recovered by about 2½% (TWI majors) over the last three weeks of the month. This move was fundamentally supported by the US economic surprise indicator continuing to track higher and the FOMC showing little change to its policy outlook, signalling another rate hike in December and three more projected hikes next year. The Fed indicated a start to its "quantitative tightening" programme from next month, which will see the size of its balance sheet gradually shrink over coming years to a set formula. US tax reform got some headlines and helped support the USD, with Trump issuing his plan for tax cuts, designed to help increase the chance of them being supported by his Republican party.

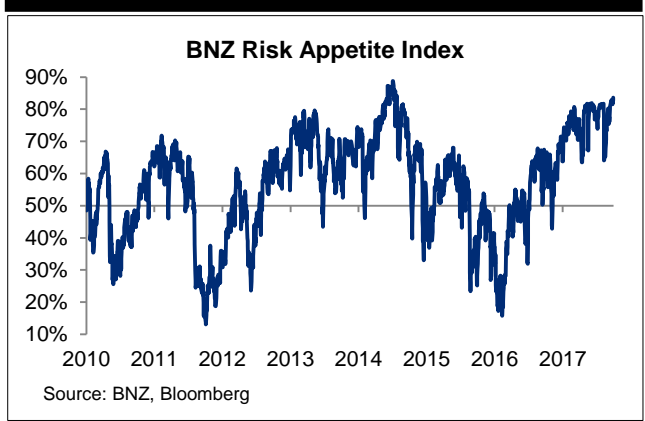
**Little impact of the NZ election on the market**

The positive turnaround in the USD had an adverse impact on emerging market currencies and this saw some spillover effect for the NZD later in the month. This backdrop provided a good excuse for some profit-taking in the NZD following the inconclusive NZ election result. Notably, the lack of certainty about whether the next government would be National-led or Labour-led didn't perturb the NZ equity market or the NZ rates market. In the two days after the election result, the NZSE50 index had added about 1% against a flat global equity market backdrop while NZ-US rate spreads were flat to down slightly.

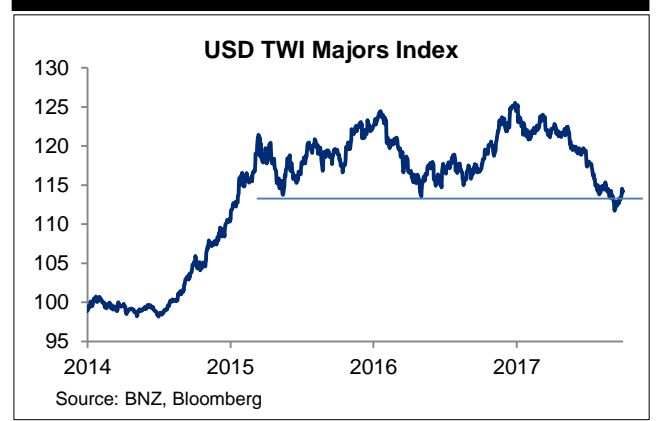
**US-Nth Korea tensions escalate**

Throughout the month, tensions between the US and North Korea simmered away, with some hard-hitting talk from both sides. North Korea continued with its provocative missile tests and Trump responded by threatening to totally destroy the nation.

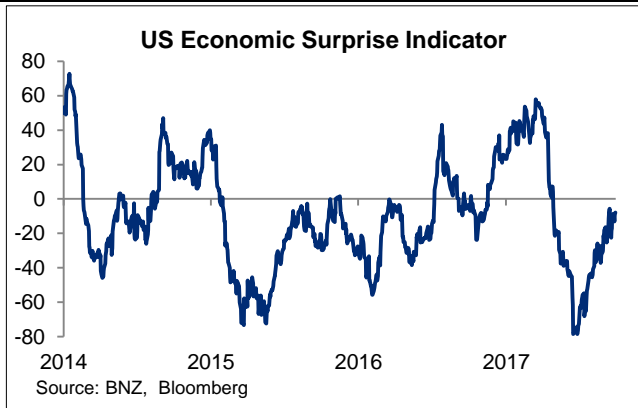
**Risk Appetite at a Fresh High**



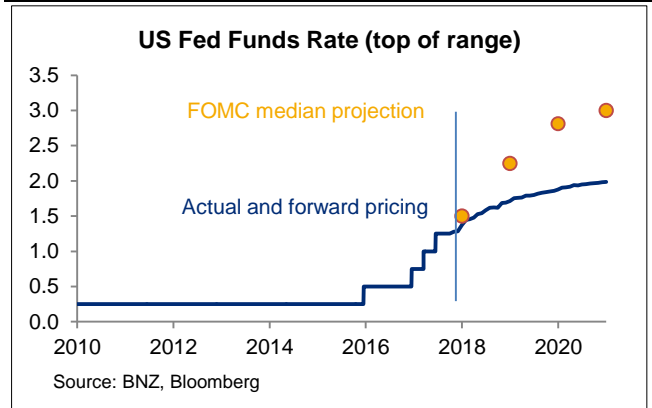
**USD Back From the Brink**



**US Dataflow On the Improve**



**Market Remains Sceptical About Fed Hike Path**



**GBP higher as BoE signals rate hike**

Of the major currencies, GBP was the top performer, supported by the surprisingly hawkish comments from the Bank of England at its last meeting. The BoE voted 7-2 to keep rates unchanged but the Bank indicated that some withdrawal of monetary stimulus is likely to be appropriate “over the coming months” in order to return inflation sustainably to target. Brexit talks remained at a pedestrian pace, although the UK looked increasingly likely to meet some EU demands. PM May said the UK would pay a €20bn down-payment towards what is likely to be an even higher exit bill. She was also looking for around a two-year transition period after Brexit through to 2021 that avoids the cliff-edge scenario. NZD/GBP was down by about 3% for the month, the only major currency it fell against.

**NZD/AUD higher as iron ore prices plunge**

NZD/AUD closed the month nearly 2% higher. After their very strong run, iron ore prices slumped by 21% and other “hard” commodities underperformed. Meanwhile, “soft” commodities performed well. Whole milk powder futures ended the month slightly higher around USD 3300 per tonne. Oil prices had a strong month, with global demand estimates revised higher against a backdrop of restraints on production. Brent crude reached its highest level since mid-2015.

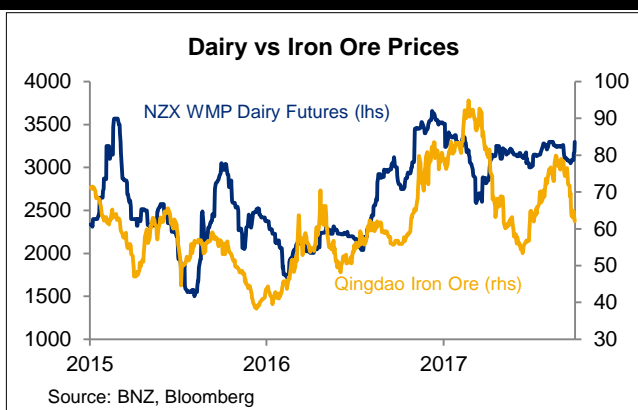
**ECB on verge of announcing QE taper**

EUR was lower after the surprising Germany Federal elections, which saw Chancellor Merkel scrambling to find new coalition partners to form a new government, while the far-right anti-immigration party entered Parliament for the first time, winning nearly 13% of the vote. Earlier in the month, EUR had found some support as ECB President Draghi suggested that he might be ready to make an announcement on the next steps for the asset purchase programme in October. Restraining EUR was the admission that there was “broad” concern in the Governing Council over the euro, and he added that the GC would have to take into account the appreciation of the euro in its future policy decisions.

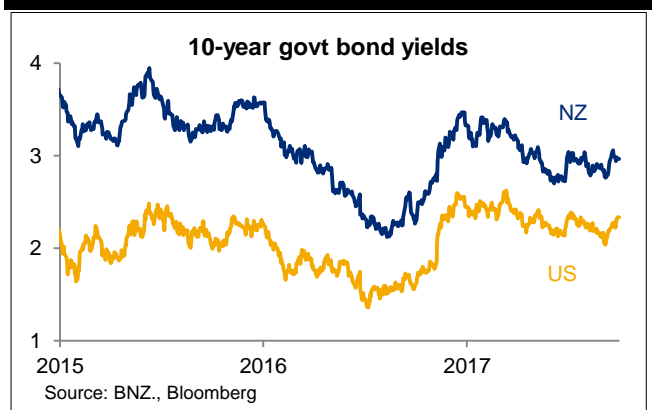
**PBoC less worried about capital outflows threat**

The PBoC removed the reserve requirement for financial institutions trading in FX forwards and for foreign banks' yuan deposits. The changes make it cheaper for companies and investors to buy dollars while selling yuan. These moves followed the decent appreciation of the yuan and the PBoC is clearly more relaxed about the threat of capital outflows. CNY weakened after the announcement through the rest of the month both against the USD and on its currency basket.

**Iron Ore Prices Down While Dairy Steady**



**Long Bond Yields Higher in September**



### Global bond yields move higher

The short end of NZ's rates curve remained underpinned by an unchanged monetary policy outlook, as confirmed by the RBNZ's September OCR Review. Rates at the longer end of the curve were pushed higher by global forces. The positive economic backdrop, US CPI inflation picking up, more confidence that the Fed would raise rates in December and tax reform back in the spotlight all helped push US 10-year Treasury yields higher. After falling to a year-to-date low of 2.015% amidst heightened North Korean tensions and Hurricane Harvey battering Texas, rates rose steadily thereafter to close the month at 2.33%, its highest close in over two months.

### JPY soft

The higher global rates backdrop had a negative impact on JPY, making it the worst performing major currency. NZD/JPY rose by nearly 3% for the month.

[jason.k.wong@bnz.co.nz](mailto:jason.k.wong@bnz.co.nz)

Monthly Performance Table							
	end-Sep	end-Aug	Change		end-Sep	end-Aug	Change
<b>Currencies</b>				<b>NZ Rates</b>			
NZD/USD	0.7209	0.7178	0.4%	OCR	1.75	1.75	0.00
NZD/AUD	0.9202	0.9032	1.9%	NZ 90day BB	1.96	1.96	0.00
NZD/EUR	0.6103	0.6027	1.3%	NZ 2yr sw ap	2.22	2.20	0.02
NZD/GBP	0.5381	0.5551	-3.1%	NZ 5yr sw ap	2.75	2.67	0.08
NZD/JPY	81.12	78.94	2.8%	NZ 10yr sw ap	3.27	3.16	0.11
NZD/CNY	4.784	4.7340	1.0%	NZ Govt (4/20)	2.09	2.03	0.06
TWI	76.2	75.3	1.1%	NZ Govt (4/23)	2.54	2.49	0.05
AUD/USD	0.7834	0.7947	-1.4%	NZ Govt (4/27)	2.97	2.91	0.06
EUR/USD	1.1814	1.1910	-0.8%	<b>Global 10 year bond rates</b>			
GBP/USD	1.3398	1.2930	3.6%	US	2.33	2.12	0.22
USD/JPY	112.51	109.98	2.3%	Canada	2.10	1.85	0.25
USD/CNY	6.65	6.59	1.0%	UK	1.36	1.03	0.33
USD/CAD	1.2472	1.2482	-0.1%	France	0.74	0.66	0.08
USD TWI major	114.21	113.69	0.5%	Germany	0.46	0.36	0.10
Asia DXY	107.23	107.97	-0.7%	Italy	2.11	2.05	0.07
<b>Equity Markets</b>				<b>Commodities (USD)</b>			
MSCI AC Wrld, loc.	1,107	1,084	2.1%	Spain	1.60	1.55	0.04
MSCI World, loc.	6,058	5,919	2.4%	Portugal	2.36	2.81	-0.44
MSCI EM, USD	2,346	2,355	-0.4%	Ireland	0.73	0.68	0.05
US S&P 500	2,519	2,472	1.9%	Japan	0.06	0.00	0.06
Euro STOXX 600	388.2	373.9	3.8%	Australia	2.84	2.71	0.13
Germany DAX	12,829	12,056	6.4%	<b>Commodities (USD)</b>			
France CAC 40	5,330	5,086	4.8%	WTI Crude	51.67	47.96	7.7%
UK FTSE 100	7,373	7,431	-0.8%	Brent Crude	56.79	52.84	7.5%
Aust S&P/ASX 200	5,682	5,715	-0.6%	R/B CRB Index	183.1	180.9	1.2%
Japan Topix	1,675	1,617	3.5%	Gold spot	1,280	1,321	-3.2%
China CSI 300	3,837	3,822	0.4%	Silver spot	16.66	17.58	-5.3%
NZX50	7,930	7,817	1.4%	Copper	295.5	307.9	-4.0%
Volatility: VIX	9.51	10.59	-10.2%	Iron Ore	62.05	78.91	-21.4%
<b>3-mth Bill Futures</b>				<b>Commodities (USD)</b>			
NZD Jun-18	97.91	97.88	0.03	Coking coal	177.50	200.00	-11.3%
AUD Jun-18	98.04	98.07	-0.03	Thermal coal	97.25	95.30	2.0%
USD Jun-18	98.30	98.50	-0.20	Corn	355.3	357.8	-0.7%
EUR Jun-18	100.29	100.30	0.00	Wheat	448.3	434.5	3.2%
GBP Jun-18	99.23	99.55	-0.32	NZX Dairy WMP	3,300	3,250	1.5%
				NZX Milk Price 2018 NZD 6.75	NZD 6.76	NZD 6.76	-0.1%

Source: BNZ, Bloomberg

## Contact Details

### Stephen Toplis

Head of Research  
+(64 4) 474 6905

### Craig Ebert

Senior Economist  
+(64 4) 474 6799

### Doug Steel

Senior Economist  
+(64 4) 474 6923

### Jason Wong

Senior Markets Strategist  
+(64 4) 924 7652

## Main Offices

### Wellington

42-52 Willis Street  
Private Bag 39806  
Wellington Mail Centre  
Lower Hutt 5045  
New Zealand  
Phone: +(64 4) 473 3791  
FI: 0800 283 269

### Auckland

80 Queen Street  
Private Bag 92208  
Auckland 1142  
New Zealand  
Phone: +(64 9) 976 5762  
Toll Free: 0800 081 167

### Christchurch

111 Cashel Street  
Christchurch 8011  
New Zealand  
Phone: +(64 3) 353 2219  
Toll Free: 0800 854 854

## National Australia Bank

### Peter Jolly

Global Head of Research  
+(61 2) 9237 1406

### Alan Oster

Group Chief Economist  
+(61 3) 8634 2927

### Ray Attrill

Head of FX Strategy  
+(61 2) 9237 1848

### Skye Masters

Head of Interest Rate Strategy  
+(61 2) 9295 1196

### Wellington

Foreign Exchange +800 642 222  
Fixed Income/Derivatives +800 283 269

### Sydney

Foreign Exchange +(61 2) 9295 1100  
Fixed Income/Derivatives +(61 2) 9295 1166

### London

Foreign Exchange +(44 20) 7796 3091  
Fixed Income/Derivatives +(44 20) 7796 4761

### New York

Foreign Exchange +1 212 916 9631  
Fixed Income/Derivatives +1 212 916 9677

### Hong Kong

Foreign Exchange +(85 2) 2526 5891  
Fixed Income/Derivatives +(85 2) 2526 5891

**ANALYST DISCLAIMER:** The person or persons named as the author(s) of this report hereby certify that the views expressed in the research report accurately reflect their personal views about the subject securities and issuers and other subject matters discussed. No part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the research report. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Markets Division of National Australia Bank Limited, a member of the National Australia Bank Group ("NAB"). The views of the author(s) do not necessarily reflect the views of NAB and are subject to change without notice. NAB may receive fees for banking services provided to an issuer of securities mentioned in this report. NAB, its affiliates and their respective officers, and employees, including persons involved in the preparation or issuance of this report (subject to the policies of NAB), may also from time to time maintain a long or short position in, or purchase or sell a position in, hold or act as advisors, brokers or commercial bankers in relation to the securities (or related securities and financial instruments), of companies mentioned in this report. NAB or its affiliates may engage in these transactions in a manner that is inconsistent with or contrary to any recommendations made in this report.

**NEW ZEALAND DISCLAIMER:** This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

**US DISCLAIMER:** If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.

**National Australia Bank Limited is not a registered bank in New Zealand.**