

18 November 2016

Events Round-Up

NZ: ANZ job adv., m/m, %, Oct: 0.6 vs. 0.3 exp.

AU: Employment change, k, Oct: 9.8 vs. 16 exp.

AU: Unemployment rate, Oct: 5.6 vs. 5.7 exp.

UK: Retail sales-ex-autos, m/m, %, Oct: 2.0 vs. 0.4 exp.

EZ: CPI, m/m, %, Oct: 0.2 vs. 0.3 exp.

US: Housing starts, m/m, %, Oct: 25.5 vs. 10.4 exp.

US: CPI ex-food and energy, y/y, %, Oct: 2.1 vs. 2.2 exp.

US: Philadelphia Fed bus. outlook, Nov: 7.6 vs. 7.8 exp.

Currencies

Most currencies have traded fairly contained ranges over the past 24-hours, though the USD has pushed a little higher in the early hours of this morning. The JPY has weakened further.

The USD index pushed a little higher in the early hours of this morning as Fed Chair Yellen gave testimony to Congress. She seemed wary of being drawn into premature discussions of the economic outlook under the new President-elect. Rather her comments were fairly text book (*see Interest Rates*).

Notably, she also did not make any comments about the recent tightening in monetary conditions due to the surging USD. This appeared to give the green light for the USD index to push a bit higher, surpassing yesterday's brief foray above 100.50. The USD index now sits at 100.70.

The EUR/USD was a direct casualty. From early morning highs above 1.0740, it traded down to 1.0640 currently. In the coming 24-hours there are various Eurozone figures scheduled to speak, including ECB President Draghi and Bundesbank's Weidmann.

Late last evening the GBP/USD enjoyed a short surge higher after the release of UK October retail sales data that was much stronger than expected. In fact ex-autos, sales grew at 7.6% compared to a year ago. However, the GBP/USD succumbed to the strong USD in the early hours of this morning and now trades back at 1.2430.

The AUD experienced a short burst of volatility after the release of the AU employment report yesterday (*see Interest Rates*). It has drifted lower overnight, and is currently probing below support at the September lows near 0.7440.

The NZD/USD has also traded a little lower in the early hours of this morning, currently a little below the 0.7040 level that arrested its decline yesterday morning. The

200-day moving average sits tantalisingly near, at 0.7025.

Today, look out for a scheduled business update from Fonterra. This is an opportunity for the dairy cooperative to revise its current 2016/17 milk price forecast of NZD5.25. If it does update its forecast it is likely to be substantially higher. Our current forecast for this season is NZD6.00, although current international pricing and currency levels suggest the season's milk price might well be higher than that. Any upgrade might help support the NZD/USD, though the USD is more firmly in the driving seat at present.

Interest Rates

In a significant reversal of recent moves, NZ long-end yields closed down 8-10bps yesterday. Short-end yields were steadier. Overnight, US 10-year yields pushed up from 2.20% to 2.26%.

The NZGB market took advantage of the relative stabilisation in offshore markets to enjoy a decent rally yesterday. The NZDMO's tender of NZD150m of NZGB2025s attracted a strong 4.9x bid-to-cover ratio. The bonds were sold at yields below their pre-tender marks, suggesting keen demand. Following the tender, NZGB yields across the curve extended their morning's decline. The yield on generic '10-year' bonds closed 10bps lower, at 2.98%. NZ 10-year swaps also declined 9bps, to 3.17%.

Moves at the short-end of the curve were more contained. NZ 1-year swap was little changed and 2-year swap closed down 4bps, at 2.22%. As previously discussed, we anticipate 2-year swap will trade a 2.10-2.35% range in coming months, around a 'fair value' that currently sits close to 2.20%. This is based on our view that the OCR will remain steady at 1.75% throughout 2017, before the RBNZ begins a gradual hiking cycle from late H1 2018.

Yesterday's AU labour market report was softer than expected. Our NAB colleagues now see trend employment growth tracking at -1k a month. They also believe that the headline unemployment rate of 5.6%, likely understates the degree of spare capacity in the labour market. AU short-end yields dipped a little following the release. The market now prices around a 30% chance of an RBA cut within the year ahead. NAB continues to expect the RBA to cut rates by 50bps in 2017.

US yields pushed higher in the early hours of this morning as Fed Chair Yellen spoke to Congress. She said it would be appropriate to hike "relatively soon" (with the usual caveats). She also reiterated future rate increases would be gradual. It was fairly standard Yellen. She also confirmed it was her intention to serve out her full four

year term, until Jan-2018, deflating recent speculation she might resign under the new US administration. The market now prices a 96% chance of a Fed hike on 14 December. US 10-year yields have pushed up from 2.20-2.26%.

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		Period	Cons.	Prev.	NZT
NZ	ANZ consumer confidence index	Nov	-	122.9	13.00
NZ	Fonterra business update	-	-	-	a.m.
EZ	ECB's Praet speaks in NY	-	-	-	10.45
CH	Property prices	-	-	-	14.30
EZ	ECB's Draghi speaks in Frankfurt	-	-	-	21.15
EZ	Bundesbank's Weidmann speaks	-	-	-	23.30
CA	Core CPI, y/y, %	Oct	1.8	1.8	2.30

Source: Bloomberg, BNZ

Coming Up

Foreign Exchange						Equities				Commodities**				
Indicative overnight ranges (*)					Other FX		Major Indices				Price			
	Last	% Day	Low	High	Last	% Day	Last	% Day	% Year		Last	Net Day		
NZD	0.7027	-0.6	0.7027	0.7110	CHF	1.0059	+0.4	S&P 500	2,187	+0.5	6.7	Oil (Brent)	46.85	+0.4
AUD	0.7422	-0.8	0.7426	0.7489	SEK	9.234	+0.5	Dow	18,870	+0.0	7.9	Oil (WTI)	45.78	+0.4
EUR	1.0630	-0.6	1.0636	1.0746	NOK	8.528	+0.7	Nasdaq	5,329	+0.6	6.9	Gold	1224.4	+0.0
GBP	1.2431	-0.1	1.2412	1.2505	HKD	7.757	-0.0	Stoxx 50	3,042	+0.5	-11.9	HRC steel	494.0	+0.4
JPY	109.85	+0.7	108.82	109.79	CNY	6.878	-0.0	FTSE	6,795	+0.7	8.4	CRB	182.9	+0.3
CAD	1.3487	+0.3			SGD	1.419	+0.3	DAX	10,686	+0.2	-2.6	Wheat Chic.	418.5	+1.0
NZD/AUD	0.9468	+0.2			IDR	13,373	+0.2	CAC 40	4,528	+0.1	-8.3	Sugar	20.35	-0.1
NZD/EUR	0.6611	-0.0			THB	35.46	-0.1	Nikkei	17,863	+0.0	-9.1	Cotton	72.93	+1.0
NZD/GBP	0.5653	-0.5			KRW	1,176	+0.6	Shanghai	3,208	+0.1	-10.1	Coffee	163.0	-0.9
NZD/JPY	77.19	+0.1			TWD	31.83	-0.1	ASX 200	5,339	+0.2	4.0	WM powder	3530.0	+0.0
NZ TWI	77.31	-0.3			PHP	49.50	+0.3	NZX 50	6,815	-0.1	14.0	Australian Futures		
												3 year bond	98.2	-0.02
												10 year bond	97.43	0.01
Interest Rates						NZ Government Bonds				NZ Swap Yields				
Rates		Swap Yields		Benchmark 10 Yr Bonds		Last				Last				
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day								
USD	0.50	0.91	1.26	2.11	USD	2.25	0.03	NZGB 3 04/15/20	2.225	-0.07	1 year	2.100	-0.00	
AUD	1.50	1.76	1.85	2.75	AUD	2.57	-0.07	NZGB 6 05/15/21	2.380	-0.08	2 year	2.220	-0.04	
NZD	1.75	2.05	2.22	3.17	NZD	2.99	-0.10	NZGB 5 1/2 04/15/23	2.650	-0.08	5 year	2.688	-0.07	
EUR	0.00	0.06	-0.14	0.67	GER	0.28	-0.02	NZGB 2 3/4 04/15/25	2.880	-0.09	7 year	2.928	-0.08	
GBP	0.25	0.40	0.67	1.34	GBP	1.41	0.03	NZGB 4 1/2 04/15/27	2.985	-0.10	10 year	3.170	-0.09	
JPY	-0.05	-0.05	0.02	0.16	JPY	0.01	-0.02	NZGB 3 1/2 04/14/33	3.315	-0.10	15 year	3.463	-0.10	
CAD	0.50	1.17	1.01	1.77	CAD	1.53	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 06:53

Source: Bloomberg

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