

21 November 2016

Events Round-Up

NZ: Fonterra FY2017 milk payout +14.3% to \$6

NZ: ANZ consumer confidence, Oct: 127.2 vs. 122.9 prev.

NZ: Real retail sales (q/q%), Q3: 0.9 vs. 0.9 exp.

Currencies

The USD continued to grind higher on Friday, setting fresh milestones in the process. There was little newsflow to drive markets – investors were still adjusting positions to reflect the new Trump world of potentially easier fiscal policy and tighter monetary policy. The USD major currency TWI added another 0.3%, taking it to its highest level since early February and taking the cumulative gain since the US election to 3.2%. Given their exposure to USD-denominated debt, emerging market currencies are seeing the most pressure and losses against the USD have been moderated to some extent by policy actions – direct intervention in the case of China, Indonesia and Malaysia, amongst others and Mexico’s central bank hiked rates late last week to help stem the losses of the Peso.

Losses for the NZD on Friday were smaller compared to others, amidst a trifecta of positive economic news – Fonterra raising its projected milk payout for the current season by 75 cents to \$6 per kg/milk solids, the ANZ consumer confidence index rising to its highest level since April 2015, and real retail sales rising by 0.9% q/q in the September quarter, continuing their strong run.

The NZD ended Friday down “just” 0.2% to 0.7010, its lowest level in four months and almost losing the 70 handle in afternoon trading. Without the support of domestic economic releases like NZ, the AUD fell by 0.9% to 0.7340, driving further gains in NZD/AUD to 0.9560.

The weekend media made much of the fact that EUR/USD fell for the tenth consecutive day, the longest losing streak since the euro was introduced in 1999 and taking the cumulative loss over those ten trading sessions to 4.9%. On the day it fell by 0.4% to 1.0588, not helped by some dovish comments by ECB President Draghi in a keynote speech at a European Banking Conference.

JPY was one of the weakest currencies of the session, with USD/JPY climbing 0.7% to 110.90. Speculative traders were caught on the wrong side of this trade ahead of the US election, driving the steady depreciation of the yen – it’s almost hard to believe it was trading as low as 101.30 during the counting of votes.

The day ahead should be a quiet one for currency markets, with no major economic releases over the next 24 hours.

Interest Rates

US Treasuries continued to sell off on Friday. The yield curve bear-steepened, with the 2-year rate up 2bps to 1.07% and the 10-year rate up 5bps to 2.35% – its high for the day and the highest close since December 2015.

The NY Fed’s Dudley was keeping an open mind about the new fiscal policy environment. He told reporters, “...we have a change in expectation about the policy, but how the policy actually shifts, that remains to be determined. It’s pretty important not to jump to a conclusion here before the policy gets set”. Clearly, the market isn’t prepared to take such a sanguine view at this point and is betting that Trump’s policies will lead to more debt, higher inflation, and tighter monetary policy.

Higher bond rates are feeding through into higher mortgage rates. The US 30-year mortgage rate hit 4.125%, its highest level since July 2015 and up more than 0.5% since election day.

European rates were better behaved with Germany’s 10-year rate steady at 0.27%. In a prepared speech, ECB President Draghi suggested that the euro area’s economic recovery “remains highly reliant on a constellation of financing conditions that, in turn, depend on continued monetary support” and added that the ECB “cannot be sanguine over the economic outlook”. The comments certainly gave no hint of a possible tapering of the ECB’s asset purchases, a decision that the market keenly awaits at the early-December policy meeting.

On Friday, NZ’s bond market suffered a good old-fashioned selloff, a reflection of the global forces and positive domestic releases. The 10-year government bond rate rose by 10.5bps to 3.09%, unwinding the previous day’s fall. The swap curve showed a significant bear-steepening, with the 2-year rate up 4.5bps to 2.265% and the 10-year rate up 11bps to 3.28%.

jason.k.wong@bnz.co.nz

Coming Up

| | Period | Cons. | Prev. | NZT | |
|----|--------------------|-------|-------|-------|-------|
| JP | Trade balance, ¥Bn | Oct | 610.0 | 498.3 | 12.50 |

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 | 0.7010 | -0.2 | 0.7006 | 0.7061 | CHF | 1.0101 | +0.3 | S&P 500 | 2,182 | -0.2 | 4.4 | Oil (Brent) | 46.86 | +0.8 |
| AUD | 0.7338 | -0.9 | 0.7330 | 0.7403 | SEK | 9.299 | +0.6 | Dow | 18,868 | -0.2 | 5.9 | Oil (WTI) | 45.69 | +0.6 |
| EUR | 1.0588 | -0.4 | 1.0569 | 1.0643 | NOK | 8.597 | +0.7 | Nasdaq | 5,322 | -0.2 | 4.2 | Gold | 1208.7 | -0.7 |
| GBP | 1.2342 | -0.6 | 1.2302 | 1.2436 | HKD | 7.757 | -0.0 | Stoxx 50 | 3,021 | -0.7 | -12.5 | HRC steel | 510.0 | +3.2 |
| JPY | 110.91 | +0.7 | 109.80 | 110.93 | CNY | 6.887 | +0.1 | FTSE | 6,776 | -0.3 | 7.0 | CRB | 183.1 | +0.4 |
| CAD | 1.3505 | -0.1 | | | SGD | 1.426 | +0.4 | DAX | 10,665 | -0.2 | -4.1 | Wheat Chic. | 425.3 | +1.3 |
| NZD/AUD | 0.9553 | +0.8 | | | IDR | 13,428 | +0.4 | CAC 40 | 4,504 | +0.3 | -8.3 | Sugar | 20.15 | -0.3 |
| NZD/EUR | 0.6621 | +0.2 | | | THB | 35.57 | +0.2 | Nikkei | 17,967 | +0.6 | -9.6 | Cotton | 73.40 | +0.0 |
| NZD/GBP | 0.5680 | +0.3 | | | KRW | 1,183 | +0.6 | Shanghai | 3,193 | -0.5 | -12.1 | Coffee | 162.1 | -0.5 |
| NZD/JPY | 77.75 | +0.5 | | | TWD | 32.06 | +0.7 | ASX 200 | 5,359 | +0.4 | 2.0 | WM powder | 3510.0 | -0.6 |
| NZ TWI | 77.50 | +0.2 | | | PHP | 49.74 | +0.5 | NZX 50 | 6,858 | +0.6 | 14.1 | Australian Futures | | |
| | | | | | | | | | | | | 3 year bond | 98.14 | 0.00 |
| | | | | | | | | | | | | 10 year bond | 97.34 | -0.07 |
| 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 | 0.50 | 0.92 | 1.30 | 2.20 | USD | 2.35 | 0.05 | NZGB 3 04/15/20 | 2.300 | 0.07 | 1 year | 2.115 | +0.02 | |
| AUD | 1.50 | 1.76 | 1.87 | 2.84 | AUD | 2.72 | 0.15 | NZGB 6 05/15/21 | 2.455 | 0.08 | 2 year | 2.265 | +0.04 | |
| NZD | 1.75 | 2.05 | 2.27 | 3.28 | NZD | 3.09 | 0.11 | NZGB 5 1/2 04/15/23 | 2.740 | 0.09 | 5 year | 2.778 | +0.09 | |
| EUR | 0.00 | 0.06 | -0.14 | 0.67 | GER | 0.27 | -0.01 | NZGB 2 3/4 04/15/25 | 2.975 | 0.10 | 7 year | 3.030 | +0.10 | |
| GBP | 0.25 | 0.40 | 0.67 | 1.41 | GBP | 1.46 | 0.05 | NZGB 4 1/2 04/15/27 | 3.090 | 0.11 | 10 year | 3.280 | +0.11 | |
| JPY | -0.04 | -0.05 | 0.03 | 0.20 | JPY | 0.04 | 0.03 | NZGB 3 1/2 04/14/33 | 3.430 | 0.12 | 15 year | 3.578 | +0.12 | |
| CAD | 0.50 | 1.17 | 1.01 | 1.83 | CAD | 1.58 | 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: Sat morning close NY

Source: Bloomberg

Contact Details

| | | | |
|--------------------|----------------|-------------------------------|----------------------|
| New Zealand | Kymerly Martin | Senior Market Strategist | +(64 4) 924 0419 |
| | Jason Wong | Currency Strategist | +(64 4) 924 7652 |
| Australia | Ray Attrill | Global Co-Head of FX Strategy | +(61 2) 9237 1848 |
| | Rodrigo Catril | Currency Strategist | +(61 2) 9237 7109 |
| London | Nick Parsons | Global Co-Head of FX Strategy | +(44 0) 20 7710 2993 |
| | Gavin Friend | Markets Strategist | +(44 0) 20 7710 0898 |

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