

22 November 2016

Events Round-Up

JP: Trade balance (¥Bn), Oct: 496.2 vs. 610.0 exp.

Currencies

Amidst a quiet news day, the USD has lost some lustre after its strong run and is down against most of the majors, falling by 0.3% on a TWI basis. Commodity currencies and GBP are the best performers.

The S&P500 index is currently up 0.6%, rising to a record high, surpassing the previous mid-August peak, led by strong gains for the Energy sector. Oil prices are up over 4% as the probability increased of an OPEC agreement to cut production at the end of November. Iraq's Oil Minister said that it would put a new proposal on the table and Iran's Oil Minister said that it is "highly probable" members will reach a consensus on production cuts. Higher oil prices have helped support commodity prices in general, with Bloomberg's commodity price index up 2% on the day.

The commodity currencies are all higher, led by a 0.7% gain in the NZD to 0.7060. Yesterday morning it dipped below the 0.70 mark to a 4-month low of 0.6985. There is strong technical support around the 0.6950 level. Amidst some widespread post-Trump currency forecast changes in conjunction with NAB, we left our NZD and AUD projections unchanged, still seeing year-end targets of USD0.72 and USD0.75 respectively. In NZ's case we recognise the positive domestic forces, including the trifecta of positive releases on Friday and the seasonal lift the NZD tends to enjoy in the second half of December.

NZD/AUD is up probing the 0.96 handle, which has been our year-end target for some time. That said, with NZ's economic data flow remaining more positive than Australia, a further probe higher wouldn't come as a surprise.

EUR broke its 10-day losing streak to be up 0.2% at 1.0610, although at the time of writing there was still four hours to go until the NY close so that could change. We see political risk defining the path of EUR over coming months and that could easily see EUR/USD sub-parity, resulting in NZD/EUR probing the 0.70 handle, a level we saw briefly in early 2015.

The top currency performer for the day is GBP, which is up 1.1%, breaking up through 1.25 at one stage. Earlier in the session PM May signaled that she may be open to a transitional trade deal with the EU, which plays more to the hand of a "soft" than "hard" Brexit.

JPY is flat around the 111 mark.

Interest Rates

In a (US) holiday-shortened week, bond markets have been fairly quiet, with nothing of note on the economic release calendar to react to. All eyes remain on Trump as he decides on some key appointments that will lead his administration.

Germany's 10-year rate rose by 1bp to 0.28%. The key near-term risk events for European bonds are Italy's forthcoming referendum on constitutional reform on 4 December, Austria's elections the same day, and the ECB meeting soon after, where investors are sensitive to any comment about the possible "tapering" of asset purchases. Ahead of these risk events, Germany's bond market is likely to trade cautiously and in tight ranges, while pressure remains on peripheral countries like Italy. The polls are close but currently signal a vote for no change, which would see the fall of Italy's government and more possible turmoil for the region.

In US Treasuries, selling pressure at the long end of the curve has taken a breather, which sees a mild flattening of the yield curve. While the 2-year rate is unchanged at 1.07%, the 10-year rate is down 3bps to 2.33%.

US Fed vice-chair Fischer said that the economy had moved "back in the vicinity" of the Fed's employment and inflation targets, giving a nod to a December rate hike, which is now close to fully priced. He encouraged fiscal policies which increased the productivity of the economy and boosted long-term growth. He wasn't perturbed by the surge in 10-year bond yields, calling it "not that unusual" but warned that there wasn't a lot of room to increase the fiscal deficit "without adverse consequences down the road".

Yesterday, the local rates market took a breather as well, after the pummelling dealt to on Friday. The mid to long end of the swap curve showed rates down in the order of 1bp, while the 2-year rate was unchanged at 2.26%. There is little local data this week to drive the rates market, so global forces will dominate. Migration data is released today, which doesn't usually move the market, while the RBNZ's Bascand gives a speech entitled "Changing Dynamics in Household Behaviour", again unlikely to interest traders. Overnight the release calendar is fairly light as well.

jason.k.wong@bnz.co.nz

Coming Up

		Period	Cons.	Prev.	NZT
NZ	Net migration	Oct		6340	10.45
NZ	RBNZ's Bascand speaks				17.30
EC	Consumer confidence	Nov	-7.8	-8.0	4.00
US	Existing homes sales, m	Oct	5.43	5.47	4.00

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	0.7057	+0.7	0.7000	0.7077	CHF	1.0105	+0.1	S&P 500	2,195	+0.6	5.1	Oil (Brent)	49.00	+4.5
AUD	0.7358	+0.3	0.7316	0.7382	SEK	9.239	-0.6	Dow	18,944	+0.4	6.3	Oil (WTI)	47.59	+4.2
EUR	1.0605	+0.2	1.0591	1.0649	NOK	8.559	-0.5	Nasdaq	5,362	+0.8	5.0	Gold	1213.1	+0.3
GBP	1.2475	+1.1	1.2313	1.2511	HKD	7.756	-0.0	Stoxx 50	3,033	+0.4	-12.2	HRC steel	510.0	+3.2
JPY	111.10	+0.2	110.47	111.18	CNY	6.893	+0.1	FTSE	6,778	+0.0	7.0	CRB	187.4	+2.3
CAD	1.3420	-0.6			SGD	1.425	-0.1	DAX	10,685	+0.2	-3.9	Wheat Chic.	424.8	-0.1
NZD/AUD	0.9591	+0.3			IDR	13,406	-0.2	CAC 40	4,530	+0.1	-7.8	Sugar	20.36	+1.0
NZD/EUR	0.6654	+0.5			THB	35.59	+0.0	Nikkei	18,106	+0.8	-8.9	Cotton	73.61	+0.3
NZD/GBP	0.5657	-0.3			KRW	1,187	+0.3	Shanghai	3,218	+0.8	-11.4	Coffee	160.6	-1.0
NZD/JPY	78.40	+0.8			TWD	31.98	-0.3	ASX 200	5,351	-0.2	1.8	WM powder	3460.0	-0.3
NZ TWI	77.91	+0.6			PHP	49.82	+0.2	NZX 50	6,849	-0.1	14.0	Australian Futures		
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	0.92	1.29	2.16	USD	2.33	-0.03	NZGB 3 04/15/20	2.285	-0.01	1 year	2.115	+0.00	
AUD	1.50	1.76	1.85	2.80	AUD	2.69	-0.03	NZGB 6 05/15/21	2.445	-0.01	2 year	2.263	-0.00	
NZD	1.75	2.03	2.26	3.27	NZD	3.09	-0.00	NZGB 5 1/2 04/15/23	2.735	-0.01	5 year	2.765	-0.01	
EUR	0.00	0.06	-0.15	0.67	GER	0.27	0.00	NZGB 2 3/4 04/15/25	2.970	-0.01	7 year	3.018	-0.01	
GBP	0.25	0.40	0.67	1.37	GBP	1.43	-0.03	NZGB 4 1/2 04/15/27	3.085	-0.00	10 year	3.270	-0.01	
JPY	-0.05	-0.05	0.03	0.20	JPY	0.03	-0.01	NZGB 3 1/2 04/14/33	3.430	0.00	15 year	3.578	+0.00	
CAD	0.50	1.17	1.01	1.82	CAD	1.57	-0.01							

* 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

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

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.

USA 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.