

23 November 2016

Events Round-Up

NZ: Net migration (ann. '000), Oct: 70.3 vs. 62.5 prev.

EC: Consumer confidence, Nov: -6.1 vs. -7.8 exp.

US: Existing homes sales (m), Oct: 5.60 vs. 5.43 exp.

Currencies

With little newsflow, currency movements have been modest, with the USD fairly flat following yesterday's modest fall.

All eyes remain on Trump as he seeks to employ key staff and sets his policy agenda. While we await his key appointments, he released a video outlining executive action he can take on "day one". These include a withdrawal from the TPP on trade and reducing regulations on energy production. He re-emphasised his "putting America first" principle.

The equity market continues to support Trump's actions, with new milestones reached for the Dow Jones index (19000) and the S&P500 (2200), although as I write the market is back to flat for the session. After yesterday's strong run, oil prices have slipped a little, even as more OPEC oil ministers have come out suggesting that talks have been constructive on agreeing to production cuts at next week's meeting.

The NZD sits around 0.7050 and has traded in a fairly tight 50-pip range since yesterday morning. After last week's sell-down, the NZD sits slightly under-valued compared to our short term fair value estimate of 0.7170. There are only minor releases scheduled on the data calendar this week and with Thursday's US Thanksgiving holiday, the currency could remain in a tight trading range over the rest of the week.

The AUD has performed slightly better, reaching 0.74, helping to push NZD/AUD down to 0.9530.

JPY is trading around the 111 mark. USD/JPY fell to a low of 110.27 in the aftermath of another major earthquake in the Fukushima region, but as news flowed of little damage to the nuclear facilities in the region it managed to recover back to pre-earthquake levels.

Elsewhere, EUR is flat at 1.0630 and GBP has lost a little ground following its recent outperformance and sits at 1.2410.

The day ahead sees a series of Markit PMI releases in Europe and the US, while in the US durable goods orders and new home sales might hold interest for some.

Interest Rates

The theme this week continues to be a pause in the big bond selloff that has been underway over recent months, and which gained traction after Trump's election victory. Global yields are slightly lower overnight, led by Europe.

After our report went to press yesterday, ECB President Draghi said that the central bank is "committed to preserving the very substantial degree of monetary accommodation necessary to secure a sustained convergence of inflation" toward the target. This followed comments from other Governing Council members Coeure and Villeroy de Galhau, who signalled that the time to taper QE had not yet arrived. The market is sensitive to any possible taper comments ahead of the next ECB meeting in early December. These comments supported German bunds, with the 10-rate down 4bps to 0.23% and this has fed through into European markets.

The US Treasury curve flattened a little, with the 10-year rate down 2bps at 2.30% and the 2-year rate up 1bps to 1.08%. There were few economic releases to digest. The only one of note was the 2% rise in existing home sales, to reach their highest level since 2007. So the housing market has good momentum, but the circa 50bps rise in 30-year mortgage rates since the US election throws some caution into the wind about the outlook from here. Indeed, a decline in mortgage applications, evident even before the election, signals downside pressure to the US housing market.

Market-based expectations for a Fed hike next month are sitting between 94%-100%, depending on how they are measured, meaning a rate hike is all but a sure thing. Following that, the OIS market has priced in another 38bps of hikes for next year. This is below the two rate hikes the FOMC signaled as per the last set of "dot-plots" and since then the inflation outlook looks stronger post the US election. That provides some further upside potential in US bond yields at some stage, particularly at the shorter end of the curve.

Global forces supported the NZ rates market yesterday, with the 2-year swap rate down 1.5bps to 2.25% and the 10-year rate down 4.5bps to 3.225%. The short end of the curve should continue to be underpinned by little change in monetary policy expectations over coming months. We're in line with the consensus, believing that the OCR will remain unchanged throughout 2017. RBNZ's Bascand's speech last night was a fairly academic one on household spending/saving dynamics to an academic audience with little market implication.

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Coming Up

		Period	Cons.	Prev.	NZT
AU	Construction work done	Q3	-1.6	-4	13.30
GE	Markit PMI manufacturing	Nov P	54.8	55.0	21.30
GE	Markit PMI services	Nov P	54.0	54.2	21.30
EC	Markit PMI manufacturing	Nov P	53.3	53.5	22.00
EC	Markit PMI services	Nov P	52.9	52.8	22.00
US	Durable goods orders	Oct	1.8	-0.3	2.30
US	Markit PMI manufacturing	Nov P	53.5	53.4	3.45
US	New homes sales ('000)	Oct	590	593	4.00
US	Uni of Mich. cons. sentiment	Nov F	91.6	91.6	4.00

Source: Bloomberg, BNZ

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	0.7049	-0.2	0.7032	0.7083	CHF	1.0101	+0.1		S&P 500	2,197	-0.1	5.2		Oil (Brent)	48.54	-0.7	
AUD	0.7394	+0.3	0.7369	0.7414	SEK	9.222	+0.0		Dow	18,978	+0.1	6.5		Oil (WTI)	47.50	-1.5	
EUR	1.0624	-0.1	1.0584	1.0658	NOK	8.534	-0.1		Nasdaq	5,378	+0.2	5.3		Gold	1212.1	+0.2	
GBP	1.2410	-0.7	1.2404	1.2501	HKD	7.756	+0.0		Stoxx 50	3,044	+0.4	-11.8		HRC steel	510.0	+0.0	
JPY	111.00	+0.2	110.56	111.36	CNY	6.890	-0.0		FTSE	6,820	+0.6	7.7		CRB	186.9	-0.2	
CAD	1.3460	+0.3			SGD	1.424	+0.0		DAX	10,714	+0.3	-3.7		Wheat Chic.	428.3	+0.3	
NZD/AUD	0.9533	-0.6			IDR	13,443	+0.3		CAC 40	4,548	+0.7	-7.4		Sugar	19.72	-3.0	
NZD/EUR	0.6635	-0.2			THB	35.49	-0.1		Nikkei	18,163	+0.3	-8.6		Cotton	73.85	+0.3	
NZD/GBP	0.5680	+0.4			KRW	1,176	-0.9		Shanghai	3,248	+0.9	-10.0		Coffee	162.7	-0.4	
NZD/JPY	78.24	-0.1			TWD	31.90	-0.2		ASX 200	5,413	+1.2	2.6		WM powder	3430.0	-0.3	
NZ TWI	77.71	-0.3			PHP	49.89	+0.1		NZX 50	6,816	-0.5	12.2		Australian Futures			
															3 year bond	98.16	0.01
															10 year bond	97.39	0.02
Interest Rates						NZ Government Bonds				NZ Swap Yields							
Rates		Swap Yields		Benchmark 10 Yr Bonds													
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day		Last		Last							
USD	0.50	0.92	1.28	2.13	USD	2.30	-0.02	NZGB 3 04/15/20	2.255	-0.03	1 year	2.103	-0.01				
AUD	1.50	1.76	1.86	2.78	AUD	2.67	-0.02	NZGB 6 05/15/21	2.415	-0.03	2 year	2.248	-0.02				
NZD	1.75	2.04	2.25	3.23	NZD	3.06	-0.03	NZGB 5 1/2 04/15/23	2.705	-0.03	5 year	2.730	-0.04				
EUR	0.00	0.06	-0.15	0.64	GER	0.22	-0.05	NZGB 2 3/4 04/15/25	2.940	-0.03	7 year	2.975	-0.04				
GBP	0.25	0.40	0.66	1.32	GBP	1.36	-0.06	NZGB 4 1/2 04/15/27	3.055	-0.03	10 year	3.225	-0.04				
JPY	-0.05	-0.07	0.03	0.19	JPY	0.03	0.00	NZGB 3 1/2 04/14/33	3.400	-0.03	15 year	3.538	-0.04				
CAD	0.50	1.17	0.99	1.77	CAD	1.54	-0.04										

* 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 06:42

Source: Bloomberg

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