

1 June 2017

Events Round-Up

UK: GfK consumer confidence, May: -5 vs. -8 exp.
JN: Industrial production (y/y%), Apr P: 5.7 vs. 6.1 exp.
NZ: ANZ activity outlook (net %), May: 38.3 vs. 37.7 prev.
CH: Manufacturing PMI, May: 51.2 vs. 51.0 exp.
CH: Non-manufacturing PMI, May: 54.5 vs. 54.0 prev.
GE: Unemployment Rate (%), May: 5.7 vs. 5.7 exp.
EC: Unemployment Rate (%), Apr: 9.3 vs. 9.4 exp.
EC: CPI (y/y%), May: 1.4 vs. 1.5 exp.
EC: Core CPI (y/y%), May: 0.9 vs. 1.0 exp.
US: Chicago Purchasing Manager, May: 59.4 vs. 57.0 exp.
US: Pending home sales (m/m%), Apr: -1.3 vs. 0.4 exp.
NZ: QV House Prices (y/y%), May: 9.7 vs. 11.1 prev.

Good Morning

There's been plenty of newsflow to digest but, again, market movements have been fairly modest. As the month draws to a close, the S&P500 is down slightly, weighed by the energy sector as oil prices show a chunky fall; and the financial sector as a couple of major banks report softer revenue. The low market volatility and lower Treasury rates environment has made it tough to make money. As we go to press, the WSJ is flashing a headline that former FBI director will say President Trump asked him to back off Flynn probe in his testimony to the Senate committee next week.

Oil prices are down around 3% as traders lose conviction that the OPEC-and-friends deal to curb production will have much impact on reducing inventories. WTI crude is down to USD 48.20 per barrel and this has driven underperformance by the commodity currencies, with the CAD and AUD down about 0.4%. The AUD which is currently at 0.7430 hasn't been helped by another 2.5% fall in iron ore prices.

Against that backdrop, the NZD has managed to hold itself around the 0.71 mark, the area of technical resistance we've noted previously. The RBNZ's Financial Stability Review passed without reaction, as expected, and this morning QV house price data showed a modest 0.4% increase in the three months ending May to be up 9.7% y/y, the slowest pace in nearly two years, an unsurprising result.

The NZD is on track to be the best performing major currency for the month on the NY close this morning. This follows a few months of puzzling weakness against the backdrop of high risk appetite and stronger NZ commodity prices. It's been a broadly based recovery with a near-3% gain on a TWI basis, which we see as a catch-up from a previous oversold level. Further gains are likely to be hard to come by over coming months, and ultimately we see the NZD on a generally weaker path again during the second half.

NZD/AUD is up 0.5% to a fresh high of 0.9550. It might be time to wheel out our parity party note again, although officially our forecast doesn't have that for another 18 months. The cross is now more fairly priced compared to the low 0.90s of recent months, but it's hard not to be still bullish when economic factors are stacked in NZ's favour compared to Australia.

GBP has had a volatile ride over the past 24 hours owing to fluctuating polls ahead of next week's general election. Early yesterday, GBP dropped after a YouGov poll showed that the ruling Conservative Party may lose 20 seats and thereby lose their majority in parliament. After reaching as low as 1.2770 last night, GBP climbed to as high as 1.2920 as two more polls showed a convincing lead by the Conservatives in the order of 10-15 percentage points.

Euro-area inflation data were soft, but this passed with little market reaction. EUR is up 0.4% to 1.1235, reflecting USD weakness more than anything else. The Fed's Kaplan stuck to his view of two more rate increases this year but his conviction in that call looks to have softened. He noted that "...given progress on inflation has been slow and uneven, I think it merits careful scrutiny in the months ahead".

US Treasury rates continue to drift lower, with the 10-year rate down 1bp to just under 2.20%. The chartists will be eyeing up the 2.16% level, which is the low for the year reached mid-April and the 200-day moving average. With speculative net long positioning in 10-year futures not seen for a decade and rates close to their year-to-date low, the market is backing the view that the US Fed will ultimately back down from its policy guidance of a series of rate hikes through to end-2019. The recent dataflow might well be supportive of that view for now, but if recent weakness in inflation does prove to be temporary then there could be an unwelcome sell-off for traders later in the year.

With the tailwind of falling global rates, yesterday NZ long term rates reached fresh lows for the year, with 5 and 10-year swap rates closing at 2.705% and 3.19% respectively. It's another full economic calendar ahead, with focus on tonight's US ADP employment and ISM manufacturing data.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ Terms of trade (q/q%)	Q1	3.9	5.7	10:45
US Fed's Williams speaks in Seoul				12:10
AU Private capex (q/q%)	Q1	0.5	-2.1	13:30
AU Retail sales (m/m%)	Apr	0.3	-0.1	13:30
CH Caixin PMI manufacturing	May	50.1	50.3	13:45
GE Markit manufacturing PMI	May F	59.4	59.4	19:55
EC Markit manufacturing PMI	May F	57.0	57.0	20:00
UK Markit PMI manufacturing	May	56.5	57.3	20:30
US ADP employment change ('000)	May	180	177	00:15
US ISM manufacturing	May	54.6	54.8	02:00
US Construction spending (m/m%)	Apr	0.5	-0.2	02:00

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	0.7097	+0.0	0.7082	0.7122	CHF	0.9677	-0.7		S&P 500	2,408	-0.2	14.8	Oil (Brent)	50.29	-3.0
AUD	0.7432	-0.4	0.7425	0.7468	SEK	8.689	-0.4		Dow	20,995	-0.2	18.0	Oil (WTI)	48.16	-3.0
EUR	1.1241	+0.5	1.1165	1.1252	NOK	8.442	+0.1		Nasdaq	6,183	-0.3	25.0	Gold	1269.6	+0.6
GBP	1.2885	+0.2	1.2769	1.2921	HKD	7.793	-0.0		Stoxx 50	3,555	-0.2	16.0	HRC steel	579.0	-0.7
JPY	110.67	-0.2	110.49	111.03	CNY	6.818	-0.5		FTSE	7,520	-0.1	20.7	CRB	179.8	-0.9
CAD	1.3511	+0.4			SGD	1.383	-0.1		DAX	12,615	+0.1	22.9	Wheat Chic.	443.8	+0.1
NZD/AUD	0.9549	+0.5			IDR	13,323	-0.0		CAC 40	5,284	+0.5	17.3	Sugar	14.87	-1.0
NZD/EUR	0.6313	-0.5			THB	34.05	-0.2		Nikkei	19,651	-0.1	15.9	Cotton	76.98	-0.4
NZD/GBP	0.5508	-0.2			KRW	1,120	-0.5		Shanghai	3,117	+0.2	7.0	Coffee	129.4	-2.1
NZD/JPY	78.54	-0.1			TWD	30.12	-0.3		ASX 200	5,725	+0.1	7.5	WM powder	3150.0	+0.0
NZ TWI	76.84	-0.1			PHP	49.82	+0.1		NZX 50	7,419	+0.1	5.6	Australian Futures		
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	1.00	1.20	1.51	2.14	USD	2.20	-0.01	NZGB 3 04/15/20	2.08	-0.02		1 year	2.03	-0.00	
AUD	1.50	1.74	1.75	2.67	AUD	2.39	-0.00	NZGB 6 05/15/21	2.19	-0.03		2 year	2.22	-0.03	
NZD	1.75	1.97	2.22	3.19	NZD	2.78	-0.04	NZGB 5 1/2 04/15/23	2.46	-0.04		5 year	2.71	-0.04	
EUR	0.00	0.06	-0.16	0.78	GER	0.30	0.01	NZGB 2 3/4 04/15/25	2.66	-0.04		7 year	2.95	-0.03	
GBP	0.25	0.30	0.53	1.13	GBP	1.05	0.05	NZGB 4 1/2 04/15/27	2.78	-0.04		10 year	3.19	-0.03	
JPY	-0.05	-0.02	0.04	0.24	JPY	0.05	0.01	NZGB 3 1/2 04/14/33	3.07	-0.04		15 year	3.46	-0.04	
CAD	0.50	1.17	1.05	1.73	CAD	1.41	-0.00								

* 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 06:50

Source: Bloomberg

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