

1 May 2017

Events Round-Up

NZ: Building permits (m/m%), Mar: -1.8 vs. 17.2 prev.
NZ: Trade balance (\$m), Mar: 332 vs. 370 exp.
NZ: ANZ activity outlook (net %), Apr: 37.7 vs. 38.8 prev.
JN: Household spending (y/y%), Mar: -1.3 vs. -0.5 exp.
JN: CPI ex fresh food, energy (y/y%), Mar: -0.1 vs. 0.0 exp.
JN: Retail trade (y/y%), Mar: 2.1 vs. 1.5 exp.
JN: Industrial production (y/y%), Mar P: 3.3 vs. 3.9 exp.
UK: GfK consumer confidence, Apr: -7 vs. -7 exp.
UK: GDP (q/q%), 1Q: 0.3 vs. 0.4 exp.
EC: CPI (y/y%), Apr: 1.9 vs. 1.8 exp.
EC: CPI core (y/y%), Apr: 1.2 vs. 1.0 exp.
US: Employment cost index (q/q%), 1Q: 0.8 vs. 0.6 exp.
US: GDP (annualised q/q%), 1Q: 0.7 vs. 1.0 exp.
US: Core PCE (annualised q/q%), 1Q: 2.0 vs. 2.0 exp.
US: Chicago Purchasing Manager, Apr: 58.3 vs. 56.2 exp.
US: U. of Mich. Sentiment, Apr F: 97.0 vs. 98.0 exp.
CH: Manufacturing PMI, Apr: 51.2 vs. 51.7 exp.
CH: Non-manufacturing PMI, Apr: 54.0 vs. 55.1 prev.

Good Morning

A plethora of data was released on Friday, but there was little sustained market reaction to any of it. Currencies, equities and bond yields all showed little movement for the day. Markets have become immune to President Trump's jingoistic outbursts, seeing them as a negotiating tool than given any serious credence. On Friday, Trump commented that the US could have a "major, major conflict with North Korea" if diplomacy didn't work, but the market didn't take much notice. Early Saturday, reports came through of another failed test missile launch by North Korea.

The largest currency move on Friday followed CPI figures in the euro area showing a larger than expected recovery in April. These provided a boost to EUR as they add to the case for the ECB to offer a less dovish stance next month, but the 50pip move up towards 1.0950 wasn't sustained, and it closed just under 1.09.

UK GDP slightly disappointed, but GBP moved higher anyway, and closed up 0.4% for the day at 1.2950, its highest close since the end of September. Short positions likely continue to be closed, with the currency on an upward trend since PM May called for a snap election. At an EU summit on Saturday, leaders agreed some formal guidelines for Brexit talks. They hose down PM May's

"completely unreal" expectations of a swift trade deal, with the EU wanting agreement with the UK's financial obligations on leaving the EU and EU citizen rights before any talks on future relations can begin. This should limit any further enthusiasm for GBP.

US GDP grew by annualised 0.7% in Q1, but a soft result was well anticipated and has been on the radar for some time. With seasonal adjustment issues widely recognised for Q1 the y/y growth of 1.9% is a better reflection of growth in the US economy, which is close to the average pace of the past seven years. To us, the more interesting release was the surprising strength in the employment cost index. This provides some fodder for the hawks within the Fed that the tight labour market is leading to increasing wage pressure. US Treasury rates moved a couple of basis points higher on the release, but the move wasn't sustained. For the day the 2-year rate was flat at 1.26% while the 10-year rate fell by 1.5bps to 2.38%. USD indices traded in a tight range after the series of US economic releases, with more reaction seen post the euro area CPI release, which had unwound within a few hours.

The NZD traded in a fairly tight range on Friday, but was flat to slightly lower on all the cross rates. It ended the week at 0.6866, close to a key technical support level. A sustained break lower from here opens up about 2 cents of downside to the next level of technical support.

For the month of April the NZD fell by about 2% and, while flat against the AUD and CAD, it was down on all the other major currencies. Over the past three months, the NZD has significantly underperformed and is down by about 6% on a TWI basis. We see this movement as driven largely by portfolio flows than fundamentals as it has come over a period where global economic indicators have generally been improving and NZ commodity prices have held up at a solid level (the CBA NZ commodity price index in SDR terms has been flat over that period). With few offsetting economic factors to the weak NZD, it adds to the inflationary impulse in the economy, something for the RBNZ to consider as it finalises its forecasts ahead of the 11 May MPS.

On Friday, NZ rates were lower, down in the order of 1-2bps across the swap curve. With the US 10-year rate closing at a similar level to where it was trading at the NZ close, there should not be any strong bias to rates in today's session. With little data during the local trading session today, focus will turn to tonight's US data, which includes income and spending data and the manufacturing ISM.

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Coming Up

	Period	Cons.	Prev.	NZT
US Personal income, m/m%	Mar	0.3	0.4	00:30
US Personal spending, m/m%	Mar	0.2	0.1	00:30
US Core PCE deflator, y/y%	Mar	1.6	1.8	00:30
US ISM manufacturing	Apr	56.5	57.2	02:00
US Construction spending, m/m%	Mar	0.5	0.8	02:00

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	0.6866	-0.1	0.6852	0.6881	CHF	0.9946	+0.1	S&P 500	2,384	-0.2	15.4	Oil (Brent)	52.05	+0.4
AUD	0.7488	+0.3	0.7448	0.7488	SEK	8.854	+0.2	Dow	20,941	-0.2	17.8	Oil (WTI)	49.33	+0.7
EUR	1.0895	+0.2	1.0857	1.0947	NOK	8.585	+0.2	Nasdaq	6,048	-0.0	26.6	Gold	1268.3	+0.2
GBP	1.2951	+0.4	1.2891	1.2965	HKD	7.778	-0.0	Stoxx 50	3,560	-0.1	17.5	HRC steel	615.0	+0.0
JPY	111.49	+0.2	111.09	111.72	CNY	6.894	-0.1	FTSE	7,204	-0.5	15.4	CRB	181.7	+0.7
CAD	1.3653	+0.1			SGD	1.397	-0.0	DAX	12,438	-0.0	23.9	Wheat Chic.	432.3	+0.2
NZD/AUD	0.9169	-0.4			IDR	13,329	+0.1	CAC 40	5,267	+1.0	18.9	Sugar	16.13	+4.5
NZD/EUR	0.6302	-0.4			THB	34.59	-0.0	Nikkei	19,197	-0.3	15.2	Cotton	80.23	+1.1
NZD/GBP	0.5302	-0.5			KRW	1,138	+0.7	Shanghai	3,155	+0.1	7.4	Coffee	133.4	+3.0
NZD/JPY	76.55	+0.0			TWD	30.21	+0.2	ASX 200	5,924	+0.0	12.8	WM powder	3100.0	-2.4
NZ TWI	74.79	-0.2			PHP	50.11	-0.0	NZX 50	7,379	+0.3	8.2	Australian Futures		
												3 year bond	98.19	0.02
												10 year bond	97.41	0.02
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	Last		
USD	1.00	1.17	1.57	2.25	USD	2.28	-0.01	NZGB 3 04/15/20	2.29	-0.02	1 year	2.07	-0.00	
AUD	1.50	1.75	1.83	2.85	AUD	2.58	-0.04	NZGB 6 05/15/21	2.43	-0.03	2 year	2.31	-0.01	
NZD	1.75	1.99	2.31	3.38	NZD	3.05	-0.03	NZGB 5 1/2 04/15/23	2.71	-0.04	5 year	2.89	-0.01	
EUR	0.00	0.06	-0.14	0.79	GER	0.32	0.02	NZGB 2 3/4 04/15/25	2.97	-0.04	7 year	3.13	-0.02	
GBP	0.25	0.32	0.56	1.14	GBP	1.09	0.02	NZGB 4 1/2 04/15/27	3.05	-0.03	10 year	3.38	-0.02	
JPY	-0.07	0.01	0.03	0.22	JPY	0.02	-0.01	NZGB 3 1/2 04/14/33	3.31	-0.03	15 year	3.65	-0.02	
CAD	0.50	1.17	1.07	1.78	CAD	1.55	-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: NY close Sat morning

Source: Bloomberg

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