

2 June 2017

## Events Round-Up

NZ: Terms of trade (q/q%), Q1: 5.1 vs. 3.9 exp.  
AU: Private capex (q/q%), Q1: 0.3 vs. 0.5 exp.  
AU: Retail sales (m/m%), Apr: 1.0 vs. 0.3 exp.  
CH: Caixin PMI manufacturing, May: 49.6 vs. 50.1 exp.  
UK: Markit PMI manufacturing, May: 56.7 vs. 56.5 exp.  
US: ADP employment chge ('000), May: 253 vs. 180 exp.  
US: ISM manufacturing, May: 54.9 vs. 54.8 exp.  
US: Construction spending (m/m%), Apr: -1.4 vs. 0.5 exp.

## Good Morning

The first day of the month kicked off with some positive US economic news and higher oil prices that have lifted the USD, UST yields and US equities.

US equities have probed fresh highs, with the S&P500 index currently up 0.6%, supported by generally positive newsflow – auto sales reported from a number of US car makers beat estimates; oil prices have recovered a little after US data showed a decent fall in crude inventories; ADP employment growth was stronger than expected; and the ISM manufacturing index was in line at a healthy level, with the detail showing stronger new orders and employment components.

Meanwhile FOMC members haven't deviated from the firmer monetary policy script. Yesterday, the Fed's Williams played down anxiety over recent weakness in US inflation and suggested that an improving economy warranted "three or four rate increases" this year. In an overnight speech, Fed Governor Powell also shrugged off recent weakness in inflation and said "if the economy performs about as expected, I would view it as appropriate to continue to gradually raise rates", noting in a separate interview that he could see the Fed raising rates "a couple of more times" this year if the economy performs as policy makers expect. He did soften the outlook on rates a little though by commenting "it is important that the Committee assess incoming inflation data carefully".

All this news has boosted the USD, which is higher against all the majors and the index up 0.3%. This sees the NZD peel off the 0.71 mark and sit a little lower at 0.7065. There has been some drag from a weak AUD, which sits at the bottom of the leaderboard, down 0.7% to 0.7380. Yesterday, there was a brief spike up on a strong retail sales report, but the accompanying capex

report was soft and soon after a surprising sub-50 reading on the China Caixin PMI sent the AUD lower. Throw in another near-2% fall in iron ore prices and growing expectations that Q1 and/or Q2 GDP Australian growth could come in negative, and the makings of a depreciating AUD are there. On a TWI basis the AUD has fallen by about 6% over the past ten weeks. NZD/AUD has pushed up to fresh multi-month highs and currently sits at 0.9570.

The stronger USD has dragged down the EUR back towards 1.12. The German contingent of the ECB Board is calling for a change in policy guidance. Bundesbank President Weidmann said that the ECB is starting to debate whether to reflect the euro area's improving economic prospects in its policy guidance. Board member Lautenschlaeger added that "when the situation changes in a clear and not just temporary way, then forward guidance should also change". These comments follow President Draghi's view last week where he tried to hose down expectations of an imminent change in policy guidance. The market is siding with the Germans. In a Reuters survey a large majority expect the ECB to drop reference to lower rates and raise the balance of risks on growth to balanced from negative at next week's meeting.

GBP's correlation with election poll surveys has reduced and the currency sits fairly flat for the day at 1.2880. USD/JPY is up 0.5% 111.35. Meanwhile, China continues to intervene to drive its currency higher and delink it from the USD. At the end of last week the PBoC changed its yuan fixing formula to make it less affected by market pressures and give the PBoC more control, shifting further away from its aim of creating a freely-floating currency.

In the US Treasury market, despite the positive economic news, central bank speak and higher equities, rates have only ticked up by just over 1bp across the curve. The 10-year rate has traded in a 2.20-2.24% range and currently sits near the middle of that. Pricing for a mid-June hike has risen to a 90% chance, but beyond that there is much less conviction of another near-term hike, with just 34bps of hikes priced in by year-end.

Yesterday the local rates market saw yet more fresh lows for longer term rates, with 5-year and 10-year swap rates down 3bps to 2.68% and 3.17% respectively, and the 10-year government rate down 4bps to 2.73%. As previously noted, we think that the risks are asymmetrically skewed to the upside for long-term yields on a 1-3 month view.

The focus for the day ahead will be tonight's US employment report, where the interest lies in whether

wage inflation shows signs of picking up. An upside surprise here could rattle the Treasury market, where speculative positioning is net long on 10-year futures. A couple of voting FOMC members will follow the release, so it is will interesting to see their interpretation of the figures in any Q&A.

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Coming Up

	Period	Cons.	Prev.	NZT
UK Markit construction PMI	May	52.6	53.1	20:30
US Trade balance (\$bn)	Apr	-46.1	-43.7	00:30
US Change in nonfarm payrolls ('000)	May	180	211	00:30
US Unemployment rate (%)	May	4.4	4.4	00:30
US Average hourly earnings (y/y%)	May	2.6	2.5	00:30
US Fed's Harker speaks				04:45
US Fed's Kaplan speaks				05:00

Source: Bloomberg, BNZ

Foreign Exchange							Equities				Commodities**				
Indicative overnight ranges (*)					Other FX		Major Indices			Price					
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day				
NZD	0.7065	-0.3	0.7059	0.7085	CHF	0.9711	+0.3		S&P 500	2,425	+0.6	15.5	Oil (Brent)	50.54	-0.4
AUD	0.7379	-0.7	0.7373	0.7421	SEK	8.694	+0.1		Dow	21,114	+0.5	18.7	Oil (WTI)	48.25	-0.1
EUR	1.1216	-0.2	1.1202	1.1249	NOK	8.454	+0.2		Nasdaq	6,234	+0.6	25.9	Gold	1266.7	-0.4
GBP	1.2882	-0.1	1.2830	1.2916	HKD	7.791	-0.0		Stoxx 50	3,567	+0.3	17.4	HRC steel	575.0	-0.7
JPY	111.34	+0.5	110.93	111.48	CNY	6.808	-0.1		FTSE	7,544	+0.3	21.8	CRB	179.1	-0.4
CAD	1.3515	+0.1			SGD	1.386	+0.2		DAX	12,665	+0.4	24.1	Wheat Chic.	443.5	+0.1
NZD/AUD	0.9574	+0.4			IDR	13,307	-0.1		CAC 40	5,319	+1.0	18.8	Sugar	14.23	-4.3
NZD/EUR	0.6299	-0.0			THB	34.14	+0.3		Nikkei	19,860	+1.1	19.9	Cotton	77.63	+0.8
NZD/GBP	0.5484	-0.2			KRW	1,122	+0.2		Shanghai	3,103	-0.5	6.1	Coffee	127.7	-1.3
NZD/JPY	78.66	+0.2			TWD	30.12	-0.0		ASX 200	5,738	+0.2	8.7	WM powder	3130.0	-0.6
NZ TWI	76.62	-0.1			PHP	49.74	-0.2		NZX50	7,451	+0.4	6.4	<b>Australian Futures</b>		
												3 year bond	98.31	-0.01	
												10 year bond	97.57	-0.01	
Interest Rates							NZ Government Bonds				NZ Swap Yields				
Rates		Swap Yields		Benchmark 10 Yr Bonds		Last		Last		Last					
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day		Last	Last	Net Day				
USD	1.00	1.21	1.53	2.16	USD	2.22	0.01	NZGB 3 04/15/20	2.06	-0.02	1 year	2.03	+0.00		
AUD	1.50	1.74	1.75	2.68	AUD	2.40	0.01	NZGB 6 05/15/21	2.16	-0.02	2 year	2.20	-0.02		
NZD	1.75	1.96	2.20	3.17	NZD	2.73	-0.04	NZGB 5 1/2 04/15/23	2.43	-0.03	5 year	2.68	-0.03		
EUR	0.00	0.06	-0.16	0.79	GER	0.31	0.00	NZGB 2 3/4 04/15/25	2.63	-0.04	7 year	2.92	-0.03		
GBP	0.25	0.29	0.53	1.15	GBP	1.07	0.03	NZGB 4 1/2 04/15/27	2.73	-0.04	10 year	3.17	-0.03		
JPY	-0.06	-0.02	0.04	0.24	JPY	0.05	-0.00	NZGB 3 1/2 04/14/33	3.03	-0.04	15 year	3.43	-0.03		
CAD	0.50	1.17	1.05	1.73	CAD	1.43	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 06:52

Source: Bloomberg

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