

2 May 2017

Events Round-Up

US: Personal income (m/m%), Mar: 0.2 vs. 0.3 exp.

US: Personal spending (m/m%), Mar: 0.0 vs. 0.2 exp.

US: Core PCE deflator (y/y%), Mar: 1.6 vs. 1.6 exp.

US: ISM manufacturing, Apr: 54.8 vs. 56.5 exp.

US: Construction spending (m/m%), Mar: -0.2 vs. 0.4 exp.

Good Morning

With much of Europe and Asia on holiday, trading conditions have been light. US equities are up slightly, the VIX has fallen to near-historical lows and the NZD and AUD head the leaderboard.

Newsflow has been light. Trump caused some intra-day volatility in banking stocks when he suggested in an interview that he is actively considering breaking up big banks, but the move wasn't sustained. Trump says a lot of things that don't often pass. During local trading yesterday reports came through of the US House and Senate negotiators reaching a tentative bipartisan deal on a \$1.1 trillion bill to keep the government open through the end of September. This drove a broadly based rally in the USD, but the move wasn't sustained and by midnight had been fully unwound.

US data releases were on the soft side, with weaker than expected personal income and spending, manufacturing ISM and construction spending for March, although upward revisions for the latter were strong. After the recent spate of softer US data, Citigroup's US economic surprise index has plunged to minus 21%. Only a few weeks ago it was close to +60%, illustrative of the sharp turnaround in US data of late. The soft economic releases only had a temporary impact on the USD, and it sits roughly flat for the day.

Of note is some recovery in the NZD. It seems a long time since we've been able to say that after a period of relentless selling pressure. The NZD found support close to the key technical level of 0.6850 and it is currently up 0.9% from that level at 0.6910. In our Weekly yesterday we noted that the gap between spot and our fair value estimate (0.7450) had widened to 8%, the largest since the depths of the GFC in March 2009, illustrating how much the NZD has deviated from fundamentals of late. That had set up a low hurdle rate for a rebound in the NZD. While the NZD's correlation with risk appetite has been insignificantly different from zero this year, last night's recovery has been in the context of the VIX index probing fresh historical lows around 10.

The AUD has also performed well and trades this morning at 0.7530, leaving NZD/AUD at 0.9175. With oil prices on the soft side and WTI back below USD 49, the CAD hasn't kept pace and is fairly flat against the USD.

EUR is also fairly flat while the yen and GBP are down about 0.3% against the USD. A higher USD/JPY can largely be explained by higher UST yields while GBP was weaker from yesterday's open following reports that it took EU leaders less than a minute over the weekend to agree to a harsh set of formal guidelines in upcoming Brexit negotiations. The EU wants agreement for the UK's financial obligations on leaving the EU and EU citizen rights before any talks on future relations can begin. The UK wants trade negotiations to take place at an earlier stage in the process. No prizes for guessing who will win that battle. The EU holds all the ace cards. NZD/EUR and NZD/GBP have recovered from sub-0.63 and sub 0.53 levels respectively to EUR 0.6340 and GBP 0.5350.

US 10-year Treasury yields were hovering around 2.28%-2.30% for much of the session before US Treasury Secretary Mnuchin commented that ultra-long bonds could "absolutely" make sense for the US. This saw rates climb to as high as 2.335%, before settling at the current 2.325%. Mnuchin has previously suggested that issuing longer term bonds in the current low rate environment makes sense, so we don't really see any news in his overnight comment. The market is probably somewhat jittery ahead of Thursday's FOMC announcement. We expect the Fed to leave rates unchanged and keep its options open for raising rates again next month. Odds of a June hike are around 67% according to CME Group calculations.

There is little to say about yesterday's rates trading, with swap rates moving by less than 1bp across the curve, with the 2-year rate at 2.30% and the 10-year rate at 3.375%. After today's close, the RBA will release a policy update, and its neutral tone should pass with little market reaction.

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Coming Up

	Period	Cons.	Prev.	NZT
CH Caixin manufacturing PMI	Apr	51.3	51.2	13:45
AU RBA cash rate target (%)		1.5	1.5	16:30
UK Markit manufacturing PMI	Apr	54.0	54.2	20:30
EC Unemployment rate (%)	Mar	9.4	9.5	21:00
NZ GDT dairy auction avg. winning price			3139	
NZ QV house prices (y/y%)	Apr		12.9	05:00

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	0.6911	+0.7	0.6855	0.6923	CHF	0.9954	+0.1			S&P 500	2,393	+0.4	15.9	Oil (Brent)	51.55	-1.0
AUD	0.7533	+0.6	0.7481	0.7540	SEK	8.829	-0.3			Dow	20,951	+0.0	17.9	Oil (WTI)	48.86	-1.0
EUR	1.0906	+0.1	1.0884	1.0924	NOK	8.580	-0.1			Nasdaq	6,095	+0.8	27.6	Gold	1257.9	-0.8
GBP	1.2905	-0.4	1.2901	1.2937	HKD	7.778	-0.0			Stoxx 50	3,560	+0.0	17.5	HRC steel	615.0	+0.0
JPY	111.84	+0.3	111.43	111.93	CNY	6.894	-0.1			FTSE	7,204	-0.5	15.4	CRB	181.5	-0.1
CAD	1.3662	+0.1			SGD	1.396	-0.1			DAX	12,438	-0.0	23.9	Wheat Chic.	454.5	+5.1
NZD/AUD	0.9174	+0.0			IDR	13,329	+0.0			CAC 40	5,267	+1.0	18.9	Sugar	16.18	+0.3
NZD/EUR	0.6337	+0.6			THB	34.60	+0.0			Nikkei	19,311	+0.6	19.6	Cotton	80.45	+0.3
NZD/GBP	0.5355	+1.0			KRW	1,138	+0.0			Shanghai	3,155	+0.1	7.4	Coffee	135.9	+1.8
NZD/JPY	77.29	+1.0			TWD	30.22	+0.0			ASX 200	5,957	+0.5	13.6	WM powder	3100.0	+0.0
NZ TWI	75.19	+0.5			PHP	50.08	-0.0			NZX 50	7,382	+0.0	8.7			
Australian Futures																
														3 year bond	98.13	-0.03
														10 year bond	97.35	-0.06
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	1.58	2.29	USD	2.33	0.05	NZGB 3 04/15/20	2.27	-0.02	1 year	2.07	+0.00			
AUD	1.50	1.75	1.87	2.91	AUD	2.58	0.00	NZGB 6 05/15/21	2.41	-0.02	2 year	2.30	-0.01			
NZD	1.75	2.00	2.30	3.38	NZD	3.03	-0.02	NZGB 5 1/2 04/15/23	2.69	-0.02	5 year	2.89	+0.00			
EUR	0.00	0.06	-0.15	0.79	GER	0.32	0.00	NZGB 2 3/4 04/15/25	2.95	-0.02	7 year	3.13	+0.00			
GBP	0.25	0.33	0.56	1.15	GBP	1.09	0.00	NZGB 4 1/2 04/15/27	3.03	-0.02	10 year	3.38	+0.00			
JPY	-0.07	0.00	0.03	0.22	JPY	0.01	-0.00	NZGB 3 1/2 04/14/33	3.29	-0.02	15 year	3.65	+0.00			
CAD	0.50	1.17	1.08	1.84	CAD	1.58	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 06:41

Source: Bloomberg

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