

3 July 2017

Events Round-Up

NZ: Building permits (m/m%), May: 7.0 vs. -7.4 prev.
UK: GfK consumer confidence, Jun: -10 vs. -7 exp.
JN: CPI ex fresh food, energy (y/y%), May: 0.0 vs. 0.1 exp.
JN: Industrial production (m/m%), May: -3.3 vs. -3.0 exp.
CH: Manufacturing PMI, Jun: 51.7 vs. 51.0 exp.
CH: Non-manufacturing PMI, Jun: 54.9 vs. 54.5 prev.
GE: Unemployment claims rate (%), Jun: 5.7 vs. 5.7 exp.
EC: CPI (y/y%), Jun: 1.3 vs. 1.2 exp.
EC: CPI core (y/y%), Jun: 1.1 vs. 1.0 exp.
US: Personal income (m/m%), May: 0.4 vs. 0.3 exp.
US: Personal spending (m/m%), May: 0.1 vs. 0.1 exp.
US: PCE Core (y/y%), May: 1.4 vs. 1.4 exp.
US: Chicago purchasing manager, Jun: 65.7 vs. 58.0 exp.
US: U. of Mich. cons. sent., Jun F: 95.1 vs. 94.5 exp.

Good Morning

It was a fairly uneventful end to an eventful week on Friday. There were plenty of data releases to chew over, but there was little market reaction to them, with end of month and quarter rebalancing dominating any flows.

From the economic dataflow we learned that Japan inflation remained soft, China PMIs and the US Chicago PMI were robust, euro-area inflation core CPI inflation ticked up by slightly more than expected (as forewarned by German CPI data the previous day) and US core PCE inflation was as soft as forewarned by CPI data earlier in the month.

The NZD ended the week on a robust note, up 0.5% for the day at a few ticks over 0.7330, the highest close since November. However that reflected a still-soft USD, with the NZD's 0.7% gain for the week representing an under-performance relative to most of the other major currencies.

The yen was one of the worst performers (again), with USD/JPY up 0.2% to 112.40 and the yen losing about 1% against the (soft) USD for the week. With core CPI inflation in Japan at zero, the BoJ has very little to show for its extreme form of quantitative easing which sees it currently own about 40% of the Japanese government bond market. Its yield curve control policy to keep the 10-year rate close to zero will require increasing JGB purchases as global bond yields rise. While this puts

downward pressure on the yen, the policy is reaching its practical limits as the stock of JGBs left in the market reduces. Some change in policy plan may be forced upon it in the future. NZD/JPY closed the week at 82.4, some 8% higher over the past six weeks.

The AUD was fairly flat on the day, but gained 1.6% for the week. Iron ore prices gained for the fifth day in a row, piling on 14.5% over that time. Oil prices also show signs of recovery, perhaps a reflection of being oversold during their pummeling in the first three weeks of June. WTI crude rose by 2.5% to USD 46, giving it a gain of 7% for the week. This helped support CAD further, taking USD/CAD below 1.30, and taking its gain for the week to 2.3%. The Bank of Canada looks next in line to begin a tightening cycle, with a hike later this month now priced at an 84% chance, up from 37% at the start of last week.

Friday's trading saw little change in EUR and GBP for the session, but recording gains of 2.1% and 2.4% against the USD respectively for the week, supported by the change in tone emerging from their central bank leaders.

The global bond market continued to adjust to the more hawkish or less dovish coordinated attempt by major central bank leaders during the week. Friday's gain in 10-year bond rates was less than we saw earlier in the week, with 1-2bps rises across Europe and the US 10-year rate up 4bps to 2.30%. More noteworthy is the week's gains across various markets for 10-year rates as follows: US +17bps, Canada +30bps, UK +25bps, Germany +22bps, Australia +22bps, and NZ +25bps. If rates continue to climb, we'll look back on last week as a watershed week, a major inflexion point in central bank guidance.

The global bond market sell-off – led by Europe – has had a significant impact on the NZ rates curve, even as the RBNZ hasn't joined in. Indeed, it was only a little over a week ago that the Bank reiterated its clear "neutral" policy guidance. OIS pricing now shows a full rate hike is priced in by May 2018, some three months earlier than the market had priced in earlier in the week, and some 18 months earlier than the RBNZ has guided. The 2-year swap rate closed the day 5.5bps higher at 2.33% and the 10-year rate rose by 9bps to 3.35%, both at their highest close since the day before the shocking May MPS.

It has been a one-sided market for much of the week and this remains at the whim of offshore market sentiment. The next 25bps increase in long bond rates won't happen in a straight line, but that's where the balance of risk lies over the coming quarter, we suspect.

ISM manufacturing data due tonight is expected to be robust, the next key release on the calendar. A market lull might set in with the US independence day holiday on Tuesday and in the lead-up to Friday's important non-farm payrolls report. However, with Europe in the driving seat, investors should probably be paying more attention to developments on the other side of the Atlantic, with a couple of ECB speakers due late in the week.

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Coming Up

		Period	Cons.	Prev.	NZT
JN	Tankan confidence, large manuf.	Q2	15	12	11:50
AU	Building approvals (m/m%)	May		4.4	13:30
CH	Caixin PMI manufacturing	Jun	49.8	49.6	13:45
US	Fed's Bullard speaks at BoE conference in London				20:30
EC	Unemployment rate (%)	May	9.3	9.3	21:00
US	ISM Manufacturing	Jun	55.2	54.9	02:00
US	Construction spending (m/m%)	May	0.3	-1.4	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	Net Day			
NZD	0.7333	+0.5	0.7309	0.7346	CHF	0.9579	+0.2	S&P 500	2,423	+0.2	15.2	Oil (Brent)	48.77	+2.8	
AUD	0.7689	+0.1	0.7667	0.7700	SEK	8.432	-0.4	Dow	21,350	+0.3	18.9	Oil (WTI)	46.04	+2.5	
EUR	1.1426	-0.1	1.1392	1.1441	NOK	8.347	-0.5	Nasdaq	6,140	-0.1	26.3	Gold	1242.3	-0.3	
GBP	1.3025	+0.1	1.2946	1.3025	HKD	7.807	+0.0	Stoxx 50	3,442	-0.8	19.4	HRC steel	640.0	+1.7	
JPY	112.39	+0.2	111.82	112.60	CNY	6.781	-0.1	FTSE	7,313	-0.5	11.2	CRB	174.8	+1.7	
CAD	1.2964	-0.3			SGD	1.376	-0.2	DAX	12,325	-0.7	26.1	Wheat Chic.	526.0	+6.0	
NZD/AUD	0.9537	+0.5			IDR	13,348	+0.1	CAC 40	5,121	-0.3	19.8	Sugar	13.81	+2.3	
NZD/EUR	0.6418	+0.6			THB	33.93	-0.2	Nikkei	20,033	-0.9	27.7	Cotton	75.31	+1.8	
NZD/GBP	0.5630	+0.4			KRW	1,144	+0.3	Shanghai	3,192	+0.1	8.9	Coffee	125.7	-0.5	
NZD/JPY	82.42	+0.6			TWD	30.43	+0.1	ASX 200	5,721	-1.7	9.1	WM powder	3000.0	+0.0	
NZ TWI	78.56	+0.4			PHP	50.47	-0.1	NZX 50	7,611	-1.0	9.9	Australian Futures			
													3 year bond	98	-0.02
													10 year bond	97.31	-0.05
Interest Rates							NZ Government Bonds				NZ Swap Yields				
Rates		Swap Yields		Benchmark 10 Yr Bonds			Last			Last					
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day									
USD	1.25	1.30	1.62	2.28	USD	2.30	0.04	NZGB 3 04/15/20	2.26	0.07	1 year	2.09	0.02		
AUD	1.50	1.71	1.96	2.91	AUD	2.60	0.09	NZGB 6 05/15/21	2.38	0.08	2 year	2.33	0.06		
NZD	1.75	1.99	2.33	3.35	NZD	2.98	0.10	NZGB 5 1/2 04/15/23	2.67	0.09	5 year	2.87	0.08		
EUR	0.00	0.06	-0.12	0.91	GER	0.47	0.01	NZGB 2 3/4 04/15/25	2.87	0.10	7 year	3.11	0.08		
GBP	0.25	0.31	0.69	1.35	GBP	1.26	0.01	NZGB 4 1/2 04/15/27	2.98	0.10	10 year	3.35	0.09		
JPY	-0.06	0.00	0.05	0.26	JPY	0.09	0.02	NZGB 3 1/2 04/14/33	3.31	0.10	15 year	3.59	0.09		
CAD	0.50	1.17	1.43	2.09	CAD	1.76	0.06	NZGB 2 3/4 04/15/37	3.53	0.10					

* 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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