

3 May 2017

Events Round-Up

CH: Caixin manufacturing PMI, Apr: 50.3 vs. 51.3 exp.

AU: RBA cash rate target (%): 1.5 vs. 1.5 exp.

UK: Markit manufacturing PMI, Apr: 57.3 vs. 54.0 exp.

EC: Unemployment rate (%), Mar: 9.5 vs. 9.4 exp.

NZ: GDT dairy auction avg. winning price: +3.6%

NZ: QV house prices (y/y%), Apr: 11.1 vs. 12.9 prev.

Good Morning

Market movements have been modest ahead of tomorrow morning's FOMC statement. Currency movements against the USD are all within +/- 0.4% for the day, while the NZD has outperformed modestly.

There has been little fresh news to drive markets. On the political front the press has focused on the spending bill that allows the US government to stay open for business through the end of September, but with the Democrats trumping the Republicans in the negotiations. President Trump tweeted that "Our country needs a good 'shutdown' in September to fix mess!" While that smacks of a sore loser the real takeout from all this is that it confirms the status quo of political gridlock in Washington and Trump's lack of support to get the policies through that he desires. That's not such a bad thing and the complacency of the market through all this "noise" is not surprising.

US equities are flat, while European bourses were up 0.5-1%, catching up after Monday's holiday. The VIX index continues to hover around a historically low level of 10.

There were no key economic releases in the US to follow the recent series of disappointing data, but a number of car companies reported lower sales in April to make it four months in a row of falling sales in aggregate. This followed the weekend's PMI data in China and yesterday's Caixin PMI which suggest we might be past the peak in China growth momentum, after its improved run through the last year. It was better news in Europe, with final PMI data in Europe confirming that the manufacturing sector in the euro area was expanding at its fastest pace in six years. The UK PMI unexpectedly rose to a three-year high in April, likely fuelled by the cheap pound.

With all that, the USD is flat, while the GBP rose after the PMI release and sits 0.3% higher at 1.2925.

The NZD is near the top of the leaderboard, as selling pressure seen over recent months appears to have eased for now. It is up 0.4% for the day to 0.6935. The latest GDT dairy auction was more positive than we expected, with average prices up 3.6% and whole milk powder up 5.2%. It's another data point that supports NZ's term of trade. While some global commodity indices are trading close to their lows for the year, the NZ commodity price index such as the CBA version hasn't fallen at all this year and this supports our NZD fair value estimate, which is around 0.7450.

The NZD is flat to higher on all the crosses. NZD/AUD is back up through 0.92. Yesterday's RBA policy announcement showed little change in view and had little impact on the market. AUD is flat around 0.7530. The yen continues to unwind the rally seen over recent months, with USD/JPY up through 112 and NZD/JPY up to 77.7, some 1.5% higher from last week's close. The biggest gain on the crosses overnight was a 0.6% increase in NZD/CAD to take it up through 0.95. CAD dropped to a 14-month low against the USD on weaker oil prices, with WTI crude down 2% to below USD 48 per barrel.

US Treasury rates are down 2-3bps across the curve, with the 10-year rate at 2.29%. The FOMC is expected to make only minor tweaks to its policy statement, which is released 6am tomorrow. Market pricing is about two-thirds priced for another rate hike in June and the Statement should keep open that prospect. Fed speakers who have been out in force over recent weeks suggested an unchanged policy outlook despite some softer data, including the shockingly weak March CPI release.

In the local trading session yesterday, there is not much to report, with swap rates up about 1bp across the curve. The focus today will be on NZ's labour market releases. Market expectations are for little change from previous readings, so that's consistent with an unemployment rate in the low 5s and steady-low wage inflation. Anecdotes point to higher wage pressures developing, but we'll have to wait until later in the year to see that in the data.

Euro-area Q1 GDP, US ADP employment and the non-manufacturing ISM are the key global releases tonight.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ Unemployment rate (%)	1Q	5.1	5.2	10:45
NZ Employment (q/q%)	1Q	0.8	0.8	10:45
NZ Pvt wages ex overtime (q/q%)	1Q	0.4	0.4	10:45
NZ Average hourly earnings (q/q%)	1Q	0.7	-0.3	10:45
GE Unemployment claims rate (%)	Apr	5.8	5.8	19:55
UK Markit construction PMI	Apr	52	52.2	20:30
EC GDP (q/q%)	1Q A	0.5	0.4	21:00
EC GDP (y/y%)	1Q A	1.7	1.7	21:00
US ADP employment change ('000)	Apr	175	263	00:15
US Markit services PMI	Apr F	52.5	52.5	01:45
US ISM non-manf. composite	Apr	55.8	55.2	02:00
US FOMC rate decision		0.75-1	0.75-1	06:00

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	0.6935	+0.4	0.6904	0.6935	CHF	0.9922	-0.4	S&P 500	2,389	+0.0	14.8	Oil (Brent)	50.38	-2.3
AUD	0.7530	+0.1	0.7511	0.7549	SEK	8.814	-0.4	Dow	20,930	+0.1	17.0	Oil (WTI)	47.56	-2.7
EUR	1.0926	+0.2	1.0888	1.0930	NOK	8.595	+0.0	Nasdaq	6,089	-0.0	26.4	Gold	1256.7	+0.1
GBP	1.2925	+0.3	1.2865	1.2929	HKD	7.782	+0.0	Stoxx 50	3,578	+0.5	18.0	HRC steel	618.0	+0.5
JPY	112.01	+0.2	111.88	112.31	CNY	6.896	+0.0	FTSE	7,250	+0.6	16.2	CRB	180.3	-0.7
CAD	1.3723	+0.3			SGD	1.394	-0.2	DAX	12,508	+0.6	24.6	Wheat Chic.	454.0	-0.4
NZD/AUD	0.9210	+0.4			IDR	13,312	-0.1	CAC 40	5,304	+0.6	19.8	Sugar	15.88	-1.9
NZD/EUR	0.6347	+0.1			THB	34.48	-0.3	Nikkei	19,446	+0.7	20.4	Cotton	80.83	+0.5
NZD/GBP	0.5366	+0.1			KRW	1,131	-0.6	Shanghai	3,144	-0.3	5.0	Coffee	136.3	+0.3
NZD/JPY	77.68	+0.6			TWD	30.03	-0.6	ASX 200	5,950	-0.1	11.1	WM powder	3140.0	+1.3
NZ TWI	75.39	+0.3			PHP	50.03	-0.1	NZX 50	7,422	+0.5	8.5	Australian Futures		
Interest Rates										3 year bond 98.14 0.00				
										10 year bond 97.38 0.02				
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	Last				
USD	1.00	1.17	1.57	2.25	USD	2.29	-0.03	NZGB 3 04/15/20	2.25	-0.02	1 year	2.08	+0.00	
AUD	1.50	1.75	1.85	2.86	AUD	2.60	0.03	NZGB 6 05/15/21	2.40	-0.01	2 year	2.31	+0.01	
NZD	1.75	1.99	2.31	3.39	NZD	3.01	-0.02	NZGB 5 1/2 04/15/23	2.68	-0.02	5 year	2.90	+0.01	
EUR	0.00	0.06	-0.15	0.79	GER	0.33	0.01	NZGB 2 3/4 04/15/25	2.93	-0.02	7 year	3.15	+0.01	
GBP	0.25	0.33	0.56	1.16	GBP	1.09	0.00	NZGB 4 1/2 04/15/27	3.01	-0.02	10 year	3.39	+0.01	
JPY	-0.06	0.00	0.03	0.22	JPY	0.02	0.01	NZGB 3 1/2 04/14/33	3.27	-0.02	15 year	3.66	+0.01	
CAD	0.50	1.17	1.02	1.76	CAD	1.51	-0.07							

* 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 06:47

Source: Bloomberg

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