

4 May 2017

Events Round-Up

NZ: Unemployment rate (%), Q1: 4.9 vs. 5.1 exp.
NZ: Employment (q/q%), Q1: 1.2 vs. 0.8 exp.
NZ: LCI pvt wages ex overtime (q/q%), Q1: 0.4 vs. 0.4 exp.
NZ: QES avg hourly earnings (q/q%), Q1: 0.3 vs. 0.7 exp.
GE: Unemployment claims rate (%), Apr: 5.8 vs. 5.8 exp.
UK: Markit construction PMI, Apr: 53.1 vs. 52 exp.
EC: GDP (q/q%), Q1: 0.5 vs. 0.5 exp.
EC: GDP (y/y%), Q1: 1.7 vs. 1.7 exp.
US: ADP employment change ('000), Apr: 177 vs. 175 exp.
US: ISM non-manf. Composite, Apr: 57.5 vs. 55.8 exp.
US: FOMC rate decision (%): 0.75-1 vs. 0.75-1 exp.

Good Morning

Trading activity was light ahead of the FOMC announcement this morning. Economic data had little impact on the market. The US ISM non-manufacturing composite was better than the market expected, but the USD had already made some modest gains ahead of that release and there was no further push higher. Euro area GDP growth of 0.5% q/q in Q1 was in line, confirming the robust growth picture in the region.

The FOMC Statement was in line with expectations with only minor tweaks to the wording of the previous statement. Of note the "...committee views the slowing in growth during the first quarter as likely to be transitory." It also notes that job gains were solid "on average" over recent months, so is happy to treat the soft payrolls figure in March as an aberration. Further, the committee acknowledged the soft CPI outturn for March and left it at that. Overall, the statement leaves the impression that nothing significant has really changed and the path of gradual tightening remains in play. That was certainly the message of Fed members in the weeks leading up to today.

The USD and US rates were slightly higher after the Statement, with nothing to change the consensus view that the Fed is likely to hike again next month, subject to the dataflow over the next six weeks. For the full trading day, the USD major currency TWI is up 0.3%, with broadly-based, albeit modest, gains.

The NZD trades this morning close to its lows for the session around 0.6880, seeing a kick lower following the

FOMC statement. It had traded as high as 0.6969 yesterday in response to NZ labour market data showing strong employment growth and the unemployment rate falling back down to its low for the cycle of 4.9%. However, wage inflation remained soft and gives the RBNZ some breathing space before needing to signal any likely policy tightening ahead. So the NZD gains eventually faded and some further weakness followed as it was dragged down by a weaker AUD.

The AUD was the weakest performer by far on no fresh news ahead of the FOMC announcement and has made further losses since. It sits a chunky 1.4% lower for the session at 0.7430. This takes NZD/AUD back up to 0.9260, recovering some of the (unjustified) weakness of previous sessions. The spillover effect from the weaker AUD also sees the NZD down on all the other crosses.

UK and EU tensions have risen ahead of Brexit negotiations, with reports that the UK exit bill might now be closer to €100bn than €60bn, reports that PM May will be prevented from joining discussions at future EU heads of state meetings, and PM May accusing "some in Brussels" of deliberately trying to influence the upcoming UK election. We could go on, but you get the message. While this has caused a bit of intraday volatility in GBP, it has only slightly underperformed the EUR. The fall to 1.2890 is more a reflection of USD strength. EUR fell to around 1.09 this morning post-FOMC.

USD/JPY has continued its rising trend, up through 112.60, supported by a modest lift in US Treasury yields.

Our calculations show that post the FOMC Statement the probability of a June rate hike has moved up to 75%, from 63% at yesterday's close. Between now and the rest of the year, some 36bps of hikes are now priced in, up 2bps from yesterday. US Treasury rates are higher across the curve, with the 10-year rate up 3bps to 2.31%. Earlier in the session, there was a report that a key advisory committee at the Treasury Department had advised that Treasury Secretary Mnuchin's idea to create 50- and 100-year US bonds is unlikely to be successful.

In the local rates market, the short end of the curve showed an initial modest lift in rates post the NZ employment report, but once the focus turned to soft wage inflation, that was unwound. The 2-year swap rate closed the day unchanged at 2.31%, while the longer end of the curve was more influenced by global forces, which saw the 10-year swap rate down 2bps to 3.37%.

The market still sees any RBNZ tightening some distance away, with the first full rate hike not fully priced in until May next year. That's still likely earlier than the RBNZ believes. That said, the combination of higher actual CPI inflation, a weaker NZD, strong NZ terms of trade and other factors should lead the RBNZ, at next week's MPS, to project higher inflation than previously, and an earlier start date than late-2019 for the beginning of the tightening cycle.

jason.k.wong@bnz.co.nz

Coming Up

	Period	Cons.	Prev.	NZT
AU Trade balance, \$m	Mar	3250	3574	13:30
CH Caixin PMI services	Apr		52.2	13:45
AU RBA Governor Lowe Speech				15:10
UK Markit services PMI	Apr	54.5	55	20:30
EC Retail sales (y/y%)	Mar	2.1	1.8	21:00
US Nonfarm productivity, ann %	Q1	-0.1	1.3	00:30
US Trade balance, \$b	Mar	-44.5	-43.6	00:30

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	0.6877	-0.8	0.6875	0.6953	CHF	0.9933	+0.2	S&P 500	2,386	-0.2	15.6	Oil (Brent)	50.78	+0.6	
AUD	0.7428	-1.4	0.7428	0.7512	SEK	8.833	+0.3	Dow	20,952	+0.0	18.0	Oil (WTI)	47.81	+0.3	
EUR	1.0901	-0.3	1.0893	1.0935	NOK	8.640	+0.6	Nasdaq	6,065	-0.5	27.3	Gold	1247.5	-0.7	
GBP	1.2883	-0.4	1.2879	1.2938	HKD	7.782	+0.0	Stoxx 50	3,586	+0.2	20.6	HRC steel	610.0	-1.0	
JPY	112.65	+0.6	112.03	112.65	CNY	6.899	+0.0	FTSE	7,235	-0.2	17.0	CRB	180.4	+0.0	
CAD	1.3709	+0.0			SGD	1.397	+0.2	DAX	12,528	+0.2	26.2	Wheat Chic.	454.0	+0.0	
NZD/AUD	0.9258	+0.6			IDR	13,308	-0.0	CAC 40	5,301	+0.1	21.2	Sugar	15.77	-0.7	
NZD/EUR	0.6309	-0.6			THB	34.53	+0.2	Nikkei	19,446	+0.7	20.4	Cotton	80.69	-0.2	
NZD/GBP	0.5338	-0.4			KRW	1,131	+0.0	Shanghai	3,135	-0.3	4.8	Coffee	137.5	+0.9	
NZD/JPY	77.47	-0.3			TWD	30.04	+0.0	ASX 200	5,892	-1.0	11.8	WM powder	3225.0	+2.7	
NZ TWI	75.05	-0.3			PHP	49.98	-0.1	NZX 50	7,406	-0.2	8.5	Australian Futures			
													3 year bond	98.14	-0.01
													10 year bond	97.36	-0.03
Interest Rates							NZ Government Bonds				NZ Swap Yields				
Rates		Swap Yields			Benchmark 10 Yr Bonds										
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day	Last				Last				
USD	1.00	1.17	1.58	2.27	USD	2.31	0.03	NZGB 3 04/15/20	2.24	-0.02		1 year	2.07	-0.01	
AUD	1.50	1.74	1.86	2.88	AUD	2.59	-0.01	NZGB 6 05/15/21	2.37	-0.02		2 year	2.31	+0.00	
NZD	1.75	1.98	2.31	3.37	NZD	2.97	-0.04	NZGB 5 1/2 04/15/23	2.64	-0.03		5 year	2.88	-0.02	
EUR	0.00	0.06	-0.16	0.80	GER	0.33	-0.00	NZGB 2 3/4 04/15/25	2.89	-0.05		7 year	3.13	-0.02	
GBP	0.25	0.32	0.56	1.15	GBP	1.07	-0.02	NZGB 4 1/2 04/15/27	2.97	-0.04		10 year	3.37	-0.02	
JPY	-0.06	0.00	0.03	0.22	JPY	0.02	0.00	NZGB 3 1/2 04/14/33	3.23	-0.04		15 year	3.64	-0.02	
CAD	0.50	1.17	1.04	1.77	CAD	1.53	0.02								

* 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 07:02

Source: Bloomberg

Contact Details

New Zealand	Kymerly Martin	Senior Market Strategist	+(64 4) 924 0419
	Jason Wong	Currency Strategist	+(64 4) 924 7652
Australia	Ray Attrill	Global Co-Head of FX Strategy	+(61 2) 9237 1848
	Rodrigo Catril	Currency Strategist	+(61 2) 9237 7109
London	Nick Parsons	Global Co-Head of FX Strategy	+(44 0) 20 7710 2993
	Gavin Friend	Markets Strategist	+(44 0) 20 7710 0898

ANALYST DISCLAIMER: The person or persons named as the author(s) of this report hereby certify that the views expressed in the research report accurately reflect their personal views about the subject securities and issuers and other subject matters discussed. No part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the research report. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Markets Division of National Australia Bank Limited, a member of the National Australia Bank Group ("NAB"). The views of the author(s) do not necessarily reflect the views of NAB and are subject to change without notice. NAB may receive fees for banking services provided to an issuer of securities mentioned in this report. NAB, its affiliates and their respective officers, and employees, including persons involved in the preparation or issuance of this report (subject to the policies of NAB), may also from time to time maintain a long or short position in, or purchase or sell a position in, hold or act as advisors, brokers or commercial bankers in relation to the securities (or related securities and financial instruments), of companies mentioned in this report. NAB or its affiliates may engage in these transactions in a manner that is inconsistent with or contrary to any recommendations made in this report.

NEW ZEALAND DISCLAIMER: This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

USA DISCLAIMER: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.

National Australia Bank Limited is not a registered bank in New Zealand.