

5 July 2017

Events Round-Up

NZ: QSBO business confidence, Q2: 18 vs 17 prev.

AU: Retail sales (m/m%), May: 0.6% vs 0.2% exp.

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

UK: Markit construction PMI, Jun: 54.8 vs 55.0 exp.

NZ: GDT dairy auction avg. win price: 3303 vs 3434 prev

NZ: QV house prices (y/y%), Jun: 8.1 vs 9.7 prev.

Good Morning

Markets were relatively quiet overnight, as the US observed its Independence Day holiday. There was a hint of risk off following yesterday's North Korean missile test (its 11th of the year, but its first inter-continental). Asian equity markets dipped. Euro Stoxx 50 closed down 0.35% overnight. JPY initially strengthened before settling back. USD/JPY opens this morning down 0.1%, around 113.20.

But it was central bank guidance that was again the main driving force of what currency movement there was overnight, with comments from the Riksbank, the ECB, BoC, and RBA over the past 24 hours.

Bank of Canada governor Stephen Poloz reiterated hawkish comments suggested inflation should be 'well into an uptrend' in the first half of 2018. Another hint that policy tightening is not far away. The BoC meets next week. In US holiday thinned liquidity, the comments were enough to send the CAD to the top of the leaderboard, with USD/CAD down 0.6% on the day settling around 1.2940.

Other central bank comments were not so aggressive. Sweden is the latest central bank to join the wave of central banks becoming less dovish, as it held its policy rate at -0.5%. But Riksbank Governor Stefan Ingves made it clear that there is no urgency for tightening saying 'most likely we'll stay put until next [northern hemisphere] summer and then start raising the policy rate slowly.' Importantly, while lowering the chances of further easing near term, the Riksbank did not rule out easing altogether. SEK fell on the news, currently down around 0.5% against the USD.

The ECB's Executive Board Member Peter Praet in a speech in Rome argued the euro area's economic environment is improving. But he also noted the need for patience and persistence in ECB policy as underlying

inflation remains muted. So nothing to fan the fire started by Draghi last week. EUR/USD traded a tight range overnight and sits this morning down 0.1% at around 1.1350.

All this followed the RBA's decision late yesterday afternoon to hold its cash rate at 1.50%, as unanimously expected. The RBA didn't follow the seemingly coordinated change in guidance from other global central banks over the past week or so, very much sticking to its previous script. An unchanged final paragraph implies the RBA expected to keep rates on hold for some time. This saw the AUD head sharply south and to the bottom of the currency leaderboard. From around 0.7680 pre-announcement (with limited reaction to strong retail sales earlier in the day), AUD/USD dipped under 0.7600 at one point before settling around 0.7610. NZD/AUD popped higher post RBA and has ground higher overnight, up 0.7% on the day to currently sit around 0.9590.

NZD/USD is little changed from this time yesterday sitting just under 0.7300, after taking a smattering of data in its stride. Yesterday's Q2 Quarterly Survey of Business Opinion (QSBO) that was about as (very) robust as it was in Q1. This morning's QV house price data saw some further cooling in house price inflation. There was a slight 0.4% dip in overall GDT dairy auction prices, despite wholemilk powder prices rising 2.6%. No surprises in any of that. There seems little on today's calendar to see the NZD venture out of its recent 0.7260 to 0.7350 range.

There was limited movement in global bond yields overnight, outside of a Poloz-inspired 6.5bp jump in Canadian 10-year rates. German 10-year bunds were unchanged, while UK 10-year gilts eased 1bp. Focus turns to tomorrow morning's Fed minutes, ahead of Friday's US payrolls and Monetary Policy Report to the Congress.

After a strong run higher since the beginning of last week, the NZ's rates market found some receivers yesterday ending days of a one-sided market. Receivers may be further encouraged by the RBA holding its stance. AU swap rates fell around 5-6 bps on the day.

Yesterday's QSBO, despite remain robust, we don't see it as adding or subtracting to the RBNZ's views on inflationary pressure and thus to the Bank's neutral policy stance. That said, the near parallel pullback in NZ swap yields yesterday looks as much like a pause for breath after a strong run higher as anything else. NZ 2-year swap fell around 3bps on the day, to close 2.34%. It remains more than 11bps higher than the beginning of last week.

NZ 5-year and 10-year swap fell about 3bps and 4pbs to 2.90% and 3.38% respectively.

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Coming Up

	Period	Cons.	Prev.	NZT
CH Caixin China PMI Services	Jun		52.8	13:45
UK Markit/CIPS UK Services PMI	Jun	53.5	53.8	20:30
EC Retail Sales MoM	May	0.4	0.1	21:00
US FOMC Meeting Minutes				06:00

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	0.7290	-0.1	0.7266	0.7299	CHF	0.9651	+0.2		S&P 500	2,429	+0.2	15.5	Oil (Brent)	49.61	-0.1
AUD	0.7604	-0.7	0.7591	0.7627	SEK	8.526	+0.5		Dow	21,479	+0.6	19.7	Oil (WTI)	47.08	+0.0
EUR	1.1347	-0.1	1.1336	1.1374	NOK	8.350	-0.2		Nasdaq	6,110	-0.5	25.7	Gold	1223.0	+0.3
GBP	1.2922	-0.1	1.2913	1.2959	HKD	7.808	-0.0		Stoxx 50	3,479	-0.4	21.6	HRC steel	637.0	-0.2
JPY	113.23	-0.1	112.74	113.29	CNY	6.801	+0.0		FTSE	7,357	-0.3	12.8	CRB	176.2	+0.8
CAD	1.2940	-0.5			SGD	1.382	+0.0		DAX	12,437	-0.3	28.1	Wheat Chic.	555.0	+5.5
NZD/AUD	0.9587	+0.7			IDR	13,364	-0.0		CAC 40	5,175	-0.8	22.2	Sugar	13.92	+0.8
NZD/EUR	0.6425	+0.1			THB	34.00	-0.0		Nikkei	20,032	-0.1	27.8	Cotton	73.69	-2.2
NZD/GBP	0.5642	+0.1			KRW	1,151	+0.3		Shanghai	3,183	-0.4	5.9	Coffee	127.7	+1.6
NZD/JPY	82.54	-0.2			TWD	30.49	+0.2		ASX 200	5,784	+1.7	10.6	WM powder	3020.0	+0.2
NZ TWI	78.63	+0.2			PHP	50.49	-0.3		NZX 50	7,621	+0.4	9.3	Australian Futures		
Interest Rates												3 year bond 98.05 -0.02			
												10 year bond 97.37 0.05			
Rates		Swap Yields		Benchmark 10 Yr Bonds		NZ Government Bonds		NZ Swap Yields							
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day	Last			Last					
USD	1.25	1.30	1.65	2.30	USD	2.35	0.00	NZGB 3 04/15/20	2.27	-0.04	1 year	2.09	-0.02		
AUD	1.50	1.71	1.91	2.86	AUD	2.62	-0.05	NZGB 6 05/15/21	2.40	-0.03	2 year	2.34	-0.04		
NZD	1.75	1.98	2.32	3.38	NZD	3.00	-0.04	NZGB 5 1/2 04/15/23	2.68	-0.04	5 year	2.90	-0.04		
EUR	0.00	0.06	-0.14	0.91	GER	0.48	-0.00	NZGB 2 3/4 04/15/25	2.89	-0.03	7 year	3.14	-0.04		
GBP	0.25	0.30	0.67	1.31	GBP	1.25	-0.02	NZGB 4 1/2 04/15/27	3.00	-0.04	10 year	3.38	-0.04		
JPY	-0.04	0.00	0.05	0.27	JPY	0.08	-0.01	NZGB 3 1/2 04/14/33	3.33	-0.04	15 year	3.63	-0.04		
CAD	0.50	1.17	1.47	2.15	CAD	1.84	0.07	NZGB 2 3/4 04/15/37	3.55	-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 07:38

Source: Bloomberg

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