

5 May 2017

Events Round-Up

AU: Trade balance (\$m), Mar: 3107 vs. 3250 exp.
CH: Caixin PMI services, Apr: 51.5 vs. 52.2 prev.
UK: Markit services PMI, Apr: 55.8 vs. 54.5 exp.
EC: Retail sales (m/m%), Mar: 0.3 vs. 0.1 exp.
US: Nonfarm productivity (ann %), Q1: -0.6 vs. -0.1 exp.
US: Trade balance (\$b), Mar: -43.7 vs. -44.5 exp.

Good Morning

This week's theme has been weakness in commodity prices, driving down the commodity currencies, and that has continued overnight. Global commodity indices like the Bloomberg index and CRB index have made fresh lows for the year. A range of metal prices has been slammed, iron ore prices are limit down, and oil prices are down around 5%. WTI crude is flirting with USD 45, back to the level prevailing before OPEC's supply agreement was initiated at the end of November.

In all cases for these commodities, supply concerns have been raised at a time when demand might be fading. PMI indicators in China have recently fallen and the PBoC has been engineering tighter liquidity conditions, driving money market rates higher.

The NZD, AUD, CAD and NOK are all at the bottom of the daily leaderboard. While falls have been modest, in the order of 0.3%, underperformance has been accumulating over time and in most cases fresh lows for the year have been made.

The AUD has been most affected by this theme over the past couple of days, seeing it lose about 1½ cents over that time. Overnight it reached its lowest level since early-January of 0.7383 and currently sits around 0.74.

The NZD has been dragged into this theme even though NZ commodity prices have held up all year. CBA's NZ commodity price index is within 1% of where it began the year. Furthermore, with lower oil prices, NZ's terms of trade are on a rising trend and the revered all-time high of 1973 looks to be threatened this quarter. The disconnect between the weak NZD and high terms of trade will be something the RBNZ considers as it finalises its forecasts. The NZD made a fresh low for the year of 0.6840 and currently sits at 0.6855, close to an area of strong technical support.

The USD has lost all its (modest) post-FOMC gains, trading slightly below the pre-FOMC level on the major currency index. The culprit has been EUR strength, with the common currency reaching its highest level for the year and currently sits 0.8% higher at 1.0975. Final PMI estimates for April supported the notion that a decent euro-area recovery was well advanced. Traders might also be cutting their short EUR positions as it looks increasingly likely that Macron will convincingly defeat Le Pen in the second round Presidential vote this weekend. Oddschecker gives a Macron win a 91% chance and polls give Macron a 22% lead in the vote. Another factor for EUR might be the change of tone from the ECB's chief economist and known dove. Executive Board member Praet signalled that the central bank might not wait until "well past" the end of its asset-purchase programme before lifting rates, if the euro-area economy warrants faster tightening. Comments like this add to speculation that the ECB will change its policy guidance next month, removing some dovish overtones.

The US House of Congress has just passed the Republican bill to repeal and replace Obamacare by a narrow 4 vote margin. As yet, the independent CBO has not released estimates of the cost savings, which could go towards funding potential tax cuts. An earlier bill saved \$150b over ten years, but the bill has since been modified. The market has become much less sensitive to any events in Washington of late.

GBP saw a dip and then a rise, on the anticipated announcement from Buckingham palace which initially raised some concern, but proved to be inconsequential for markets. The tailwind from a strong EUR has seen GBP lift to 1.2920. USD/JPY has slipped after earlier reaching 113 and trades this morning down 0.3% at 112.50, even though US Treasury rates have nudged higher.

The US Treasury curve shows a mild steepening, with yields up 1-3bps, a further move higher in yield following the FOMC statement yesterday. The 10-year rate sits at 2.35% after earlier nudging 2.365%, a three-week high. The market is probably reluctant to put on fresh positions ahead of tonight's US employment report. A strong report would likely see rates push on higher. Net speculative positioning data last week showed a long position in US10s had been initiated for the first time in a while, which reduces the hurdle rate for yields to nudge higher.

European rates were also higher, including a 7bps move up in Germany's 10-year rate to 0.39%.

Yesterday the local rates curve was higher and steeper, a reflection of global forces. The 2-year swap rate sits at 2.31% and looks likely to remain anchored until the RBNZ's MPS next Thursday. The 10-year swap rate is at 3.40% and remains at the mercy of global forces. In the local trading session today the RBA releases its statement on monetary policy, which should pass with little market reaction. The RBNZ's survey of expectations should show a further increase in NZ inflation expectations, with the series on a clear upward trend. With actual CPI inflation moving above 2% it is only a matter of time before the survey measures show that as well.

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Coming Up

	Period	Cons.	Prev.	NZT
AU RBA statement on monetary policy				13:30
NZ RBNZ 2-yr infl'n expectations %	Q2		1.92	15:00
US Chge in nonfarm payrolls ('000)	Apr	190	98	00:30
US Unemployment rate (%)	Apr	4.6	4.5	00:30
US Average hrly earnings (m/m%)	Apr	0.3	0.2	00:30
US Average hrly earnings (y/y%)	Apr	2.7	2.7	00:30
US Fed's Fischer speaks				03:30
US Fed's Yellen speaks				05:30

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	0.6859	-0.3	0.6840	0.6884	CHF	0.9873	-0.8	S&P 500	2,389	+0.0	16.5	Oil (Brent)	48.27	-4.9	
AUD	0.7402	-0.3	0.7383	0.7419	SEK	8.833	-0.2	Dow	20,941	-0.1	18.6	Oil (WTI)	45.40	-5.1	
EUR	1.0978	+0.8	1.0875	1.0979	NOK	8.683	+0.3	Nasdaq	6,075	+0.0	28.6	Gold	1226.7	-1.7	
GBP	1.2921	+0.4	1.2831	1.2924	HKD	7.782	-0.0	Stoxx 50	3,628	+1.2	23.4	HRC steel	610.0	-1.0	
JPY	112.45	-0.3	112.32	113.05	CNY	6.896	-0.0	FTSE	7,248	+0.2	18.6	CRB	176.9	-2.0	
CAD	1.3763	+0.2			SGD	1.401	+0.2	DAX	12,648	+1.0	28.7	Wheat Chic.	437.8	-3.6	
NZD/AUD	0.9266	+0.0			IDR	13,328	+0.2	CAC 40	5,372	+1.1	24.2	Sugar	15.37	-2.5	
NZD/EUR	0.6248	-1.1			THB	34.64	+0.3	Nikkei	19,446	+0.7	20.4	Cotton	80.83	+1.1	
NZD/GBP	0.5308	-0.7			KRW	1,133	+0.1	Shanghai	3,127	-0.3	4.3	Coffee	135.0	-1.8	
NZD/JPY	77.13	-0.6			TWD	30.15	+0.4	ASX 200	5,876	-0.3	11.3	WM powder	3200.0	-0.6	
NZ TWI	74.88	-0.4			PHP	49.88	-0.2	NZX50	7,378	-0.4	7.3	Australian Futures			
													3 year bond	98.1	0.00
													10 year bond	97.32	-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	1.60	2.30	USD	2.35	0.03	NZGB 3 04/15/20	2.28	0.05	1 year	2.07	+0.00		
AUD	1.50	1.74	1.87	2.90	AUD	2.64	0.05	NZGB 6 05/15/21	2.43	0.06	2 year	2.31	+0.01		
NZD	1.75	1.98	2.31	3.40	NZD	3.03	0.06	NZGB 5 1/2 04/15/23	2.69	0.05	5 year	2.91	+0.03		
EUR	0.00	0.06	-0.14	0.84	GER	0.39	0.07	NZGB 2 3/4 04/15/25	2.93	0.05	7 year	3.16	+0.03		
GBP	0.25	0.32	0.58	1.19	GBP	1.12	0.04	NZGB 4 1/2 04/15/27	3.03	0.06	10 year	3.40	+0.03		
JPY	-0.06	0.00	0.03	0.22	JPY	0.02	0.00	NZGB 3 1/2 04/14/33	3.29	0.06	15 year	3.69	+0.05		
CAD	0.50	1.17	1.02	1.79	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 06:57

Source: Bloomberg

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