

6 July 2017

Events Round-Up

CH: Caixin China PMI Services, Jun: 51.6 vs 52.8 prev.
UK: Markit/CIPS UK Services PM, Jun: 53.4 vs 53.5 exp.
EC: Retail Sales MoM, May: 0.4 vs 0.4 exp.
US: Factory Orders, May: -0.8 vs -0.5 exp.
US: FOMC Meeting Minutes, June meeting

Good Morning

Generally quiet trading conditions prevailed overnight with data ahead of the FOMC minutes that were released at 6am this morning. Not much changed post the minutes. Equities are little changed on the day, US bond yields are marginally lower and the US dollar is marginally higher.

The only major move of note overnight was in oil, with prices slumping on talk that Russia was said to oppose any proposal to deepen OPEC-led production cuts. Brent crude slumped nearly 4% to dip back below \$US48/bbl having pushed up toward \$US50/bbl over recent days as part of recovering half its losses from a heavy sell-off in June.

No surprise then to see commodity currencies at the bottom of the currency leader board during the night. NOK was hardest hit, down 0.6% against the USD, while CAD is 0.3% lower.

NZD and AUD also came under some selling pressure as oil fell. NZD tested the bottom of its recent range, dipping under 0.7260 at one point before bouncing as oil stabilised. As the USD pared mild post-Fed-minutes gains, NZD has recovered to open this morning close to flat at around 0.7290. More broadly, commodity prices have been a support to the NZD highlighted by the 2.1% gain in the June ANZ commodity price index released yesterday. This adds to our view that NZ's terms of trade will hit a record high in 2017; it is a fundamental positive for the NZD.

NZD/AUD currently sits at 0.9590 little different from yesterday at this time. The AUD could see some knee-jerk downward pressure today, if Australia's monthly trade balance undershoots market expectations of a large surplus like our NAB colleagues thinks it will.

North Korea's recent intercontinental missile test was called a 'new escalation of the threat' by US Secretary of State Rex Tillerson. North Korean leader Kim Jung Un

aims to test this year a missile that is capable of hitting the US mainland. This saw some demand for the safe-haven JPY yesterday. USD/JPY dipped down toward 112.80 at one point. Through some oil and Fed related volatility USD/JPY opens this morning around 113.20, little changed on the day.

The Fed minutes didn't offer anything new. Officials repeated support for gradual interest rate hikes. The committee is divided on when to start reducing the balance sheet, disappointing those looking for more guidance. A September start remains possible. There was little change in Fed pricing after the minutes with about a 60% chance of another hike in 2017. Focus now turns to the Fed's Monetary Policy Report to Congress due on Friday ahead of Chair Yellen's semi-annual testimony beginning on July 12.

The only other news of note was that the EU and Japan reached political agreement at a ministerial level on a trade deal that has been in the works since 2013. Leaders are expected to endorse the preliminary accord at a summit this week. There was no market reaction but it is another sign that some global trade deals are advancing despite heightened fears of protectionism and trade wars. Improving global trade has been one factor behind some global central banks adopting a more upbeat tone of late including the ECB, BoC and even the BoE, despite obvious risks remaining.

Resuming after the Independence Day holiday, and after an attempt to push a bit higher post the Fed minutes, US 10-year Treasury yields have settled down around 2 bps for the day to sit at about 2.33%.

NZ swap yields unwound a bit more of their recent run higher yesterday, following the previous day's RBA on-hold decision and unchanged neutral guidance. NZ 2-year swap yields closed down around 3bps near 2.31% and 5-year swap yields lost 4bps closing at 2.86%. The market continues to price a first full 25bp hike by the RBNZ by May 2018. That aligns with our forecast.

There is plenty on the calendar over the next couple of days to generate some market movement. This includes the ECB account of the monetary policy meeting and some ECB speakers, along with the US ISM non-manufacturing survey and ADP employment figures overnight as a pre-cursor to the main data event, Friday's US payrolls. That is on top of the Fed's Monetary Policy Report due to Congress as mentioned above.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ	N.Z. Government 11-Month Financial :	May		10:00
AU	Trade Balance	May	1000	13:30
GE	Factory Orders MoM	May	1.9	18:00
US	Fed's Williams Speaks in Hobart, Tasmania			19:45
EC	ECB's Praet Speaks in Paris			22:00
EC	ECB account of the monetary policy meeting			23:30
US	ADP Employment Change	Jun	182.5	00:15
US	ISM Non-Manf. Composite	Jun	56.5	02:00
US	Fed's Powell Speaks on Housing Finance Reform			02:00
AS	ECB's Weidmann, Nowotny speak on Euro			04:00

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	0.7291	+0.0	0.7255	0.7293	CHF	0.9646	-0.1	S&P 500	2,430	+0.1	15.6	Oil (Brent)	47.70	-3.9	
AUD	0.7602	-0.1	0.7571	0.7632	SEK	8.495	-0.4	Dow	21,481	+0.0	19.7	Oil (WTI)	45.04	-4.3	
EUR	1.1347	+0.0	1.1313	1.1368	NOK	8.406	+0.6	Nasdaq	6,148	+0.6	26.4	Gold	1223.5	+0.4	
GBP	1.2931	+0.1	1.2894	1.2937	HKD	7.808	+0.0	Stoxx 50	3,478	-0.0	23.7	HRC steel	633.0	-0.8	
JPY	113.21	-0.1	112.99	113.69	CNY	6.802	+0.0	FTSE	7,368	+0.1	12.6	CRB	173.7	-1.4	
CAD	1.2970	+0.3			SGD	1.381	-0.1	DAX	12,454	+0.1	30.6	Wheat Chic.	560.0	+0.9	
NZD/AUD	0.9591	+0.1			IDR	13,365	+0.0	CAC 40	5,180	-0.3	24.4	Sugar	13.72	-1.8	
NZD/EUR	0.6425	+0.0			THB	33.99	-0.0	Nikkei	20,082	+0.2	30.6	Cotton	73.86	+0.2	
NZD/GBP	0.5638	-0.1			KRW	1,150	-0.0	Shanghai	3,207	+0.8	6.3	Coffee	130.0	+1.8	
NZD/JPY	82.54	-0.0			TWD	30.50	+0.0	ASX 200	5,763	-0.4	10.9	WM powder	3130.0	+3.6	
NZ TWI	78.57	+0.0			PHP	50.65	+0.3	NZX 50	7,596	-0.3	8.9	Australian Futures			
													3 year bond	98.04	-0.01
													10 year bond	97.36	0.00
Interest Rates							NZ Government Bonds				NZ Swap Yields				
Rates		Swap Yields			Benchmark 10 Yr Bonds		Last		Last		Last				
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day								
USD	1.25	1.30	1.65	2.32	USD	2.33	-0.02	NZGB 3 04/15/20	2.25	-0.02	1 year	2.08	-0.01		
AUD	1.50	1.71	1.91	2.86	AUD	2.63	0.01	NZGB 6 05/15/21	2.36	-0.04	2 year	2.31	-0.03		
NZD	1.75	1.99	2.31	3.35	NZD	2.96	-0.04	NZGB 5 1/2 04/15/23	2.65	-0.04	5 year	2.86	-0.04		
EUR	0.00	0.06	-0.13	0.91	GER	0.47	-0.01	NZGB 2 3/4 04/15/25	2.85	-0.04	7 year	3.10	-0.04		
GBP	0.25	0.30	0.66	1.33	GBP	1.26	0.01	NZGB 4 1/2 04/15/27	2.96	-0.04	10 year	3.35	-0.04		
JPY	-0.05	0.00	0.05	0.29	JPY	0.09	0.01	NZGB 3 1/2 04/14/33	3.29	-0.04	15 year	3.59	-0.04		
CAD	0.50	1.17	1.47	2.14	CAD	1.81	-0.03	NZGB 2 3/4 04/15/37	3.51	-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 07:21

Source: Bloomberg

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