

6 June 2017

Events Round-Up

US: Chge in nonfarm payrolls ('000), May: 138 vs. 182 exp.

US: Unemployment rate (%), May: 4.3 vs. 4.4 exp.

US: Average hourly earnings (y/y%), May: 2.5 vs. 2.6 exp.

CH: Caixin services PMI, May: 52.8 vs. 51.5 prev.

US: ISM non-manufacturing, May: 56.9 vs. 57.1 exp.

Good Morning

It has been a fairly sleepy overnight session in markets, with US equities tracking sideways around recent highs, small changes in global bond yields and modest currency movements except for a notable outperformance by the AUD. For locals returning after a long weekend, much of the price action occurred after the soft US employment report on Friday night.

On Friday night, weaker than expected US employment and annual wage inflation falling to its lowest level in nearly 18 months drove a weaker USD and lower UST yields. Conviction levels for a Fed rate hike next week remain high at close to 90%, but the path of further rate hikes from there remains murky. Lower-than-even odds are given for an additional rate hike in 2017, while only one further hike is priced through all of 2018.

Overnight, the US non-manufacturing ISM index remained high, with the employment index rebounding strongly. This adds weight to the case that the soft employment reading will prove to be temporary, while the historically low unemployment rate must (eventually?) lead to higher wage inflation.

The NZD sits just under 0.7150 this morning, its highest level since early March. With previous technical resistance around 0.71 now behind us, the next area of interest is around 0.7250.

The AUD has outperformed, with data yesterday showing strong inventories and company profits, reducing the chance of a negative Q1 GDP reading tomorrow. A possible additional factor is the spat amongst the gulf nations. Saudi Arabia, UAE, Bahrain and Egypt cut diplomatic ties and air and sea routes with Qatar, accusing that nation of backing terrorism and meddling in their internal affairs. After initially causing oil prices to rise, prices have since fallen, with Brent crude down about 1% to USD 49.50. Qatar is a major producer of LNG and Australia could benefit if the diplomatic standoff lingers. The fall in oil prices might reflect expectations of less chance of the production curbs extensions recently

announced being followed.

AUD is up 0.6% for the day so far and is approaching the 0.75 mark. In the aftermath of the US employment report and before that Australian data, NZD/AUD reached as high as 0.9624 but the cross currently sits almost a full cent lower from that peak at around 0.9535. The RBA's policy announcement this afternoon is expected to continue to run with a neutral policy guidance and shouldn't have much sustained impact on the market.

GBP has been a solid performer and is up to 1.2910, ahead of the general election on Thursday. The opinion polls have been coming thick and fast, with varied gaps between the Conservatives and Labour Party, ranging from 1 point to 11 points and an average of 7 points. As our NAB colleagues in London point out, this is much lower than PM May would have hoped or expected when the election was called in mid-April and although it still ought to translate into a slightly increased majority for the ruling Conservatives, it is hardly a resounding mandate for Brexit negotiations, which are scheduled to resume 19 June.

EUR is trading down slightly to 1.1250. The key event risk this week is the ECB's meeting on Thursday. A Bloomberg survey showed 90% of analysts expecting the ECB to upgrade its risks around the euro area recovery to "balanced", but analysts are split as to whether the Bank will remove its easing bias on interest rates, with the majority now expecting that to occur next month. We see EUR ultimately heading higher over the balance of the year.

US 10-year Treasury rates are trading up 2bps to 2.18%. This still represents a 3bps fall relative to the last NZ close on Friday, with the soft employment report driving the rate down to a fresh low for the year of 2.14%. There are no more top-tier data releases ahead of the FOMC meeting next week, other than CPI and retail sales data several hours before the announcement. This could see a fairly tight range for rates until that time.

In the local market, the open will be impacted by two forces, slightly lower US rates but little change in Australian bond futures relative to Friday's close. Overall, we might see little movement in swap rates from Friday's close of 2.70% for 5-year swap and 3.195% for 10-year swap. The short end of the curve remains tightly bound by expectations of little change to NZ monetary policy for an extended period.

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Coming Up

| | Period | Cons. | Prev. | NZT |
|---|--------|-------|-------|-------|
| NZ Volume of building work (q/q%) | Q1 | 0.3 | 1.9 | 10:45 |
| AU Current account balance (\$b) | Q1 | -0.8 | -3.9 | 13:30 |
| AU RBA cash rate target (%) | | 1.5 | 1.5 | 16:30 |
| EC Retail sales (y/y%) | Apr | 2.0 | 2.3 | 21:00 |
| NZ GDT dairy auction avg. winning price | | | 3313 | |

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 | 0.7142 | +0.0 | 0.7114 | 0.7150 | CHF | 0.9652 | +0.2 | | S&P 500 | 2,438 | -0.1 | 16.1 | Oil (Brent) | 49.44 | -1.0 |
| AUD | 0.7489 | +0.6 | 0.7453 | 0.7498 | SEK | 8.659 | +0.4 | | Dow | 21,203 | -0.0 | 19.1 | Oil (WTI) | 47.41 | -0.5 |
| EUR | 1.1254 | -0.2 | 1.1234 | 1.1279 | NOK | 8.447 | +0.3 | | Nasdaq | 6,303 | -0.0 | 27.5 | Gold | 1278.7 | +0.1 |
| GBP | 1.2909 | +0.2 | 1.2863 | 1.2941 | HKD | 7.792 | +0.0 | | Stoxx 50 | 3,580 | -0.3 | 19.4 | HRC steel | 575.0 | +0.0 |
| JPY | 110.49 | +0.1 | 110.37 | 110.73 | CNY | 6.804 | -0.1 | | FTSE | 7,526 | -0.3 | 21.2 | CRB | 177.3 | -0.4 |
| CAD | 1.3475 | -0.1 | | | SGD | 1.381 | +0.1 | | DAX | 12,823 | +1.2 | 26.9 | Wheat Chic. | 443.8 | +0.1 |
| NZD/AUD | 0.9537 | -0.6 | | | IDR | 13,278 | -0.3 | | CAC 40 | 5,308 | +0.3 | 20.0 | Sugar | 13.89 | +1.1 |
| NZD/EUR | 0.6346 | +0.2 | | | THB | 34.01 | -0.1 | | Nikkei | 20,171 | -0.0 | 21.7 | Cotton | 76.31 | -0.4 |
| NZD/GBP | 0.5533 | -0.2 | | | KRW | 1,118 | -0.3 | | Shanghai | 3,092 | -0.4 | 5.4 | Coffee | 128.5 | +2.3 |
| NZD/JPY | 78.91 | +0.0 | | | TWD | 30.06 | -0.2 | | ASX 200 | 5,755 | -0.6 | 7.4 | WM powder | 3130.0 | +0.0 |
| NZ TWI | 77.09 | -0.2 | | | PHP | 49.41 | -0.2 | | NZX 50 | 7,500 | +0.7 | 6.8 | Australian Futures | | |
| | | | | | | | | | | 3 year bond | | 98.29 | -0.01 | | |
| | | | | | | | | | | 10 year bond | | 97.56 | -0.04 | | |
| 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 | 1.22 | 1.52 | 2.13 | USD | 2.18 | 0.02 | NZGB 3 04/15/20 | 2.09 | 0.00 | 1 year | 2.02 | +0.00 | | |
| AUD | 1.50 | 1.73 | 1.77 | 2.68 | AUD | 2.39 | -0.02 | NZGB 6 05/15/21 | 2.19 | 0.00 | 2 year | 2.21 | +0.00 | | |
| NZD | 1.75 | 1.95 | 2.22 | 3.20 | NZD | 2.76 | 0.00 | NZGB 5 1/2 04/15/23 | 2.46 | 0.00 | 5 year | 2.70 | +0.00 | | |
| EUR | 0.00 | 0.06 | -0.16 | 0.78 | GER | 0.29 | 0.01 | NZGB 2 3/4 04/15/25 | 2.66 | 0.00 | 7 year | 2.95 | +0.00 | | |
| GBP | 0.25 | 0.29 | 0.51 | 1.12 | GBP | 1.04 | 0.00 | NZGB 4 1/2 04/15/27 | 2.76 | 0.00 | 10 year | 3.20 | +0.00 | | |
| JPY | -0.05 | -0.01 | 0.04 | 0.25 | JPY | 0.05 | -0.01 | NZGB 3 1/2 04/14/33 | 3.07 | 0.00 | 15 year | 3.46 | +0.00 | | |
| CAD | 0.50 | 1.17 | 1.05 | 1.73 | CAD | 1.42 | 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 06:49

Source: Bloomberg

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