

7 July 2017

Events Round-Up

AU: Trade balance (\$b), May: 2.5 vs. 1.0 exp.
 GE: Factory orders (m/m%), May: 1.0 vs. 1.9 exp.
 US: ADP employment chge ('000), Jun: 158 vs. 188 exp.
 US: ISM non-manf. Composite, Jun: 57.4 vs. 56.5 exp.

Good Morning

After pausing for breath over the past few days, the major bond-market sell-off that was kicked off last week has returned, driving equities lower and creating headwinds for the NZD and AUD.

Europe remains in the driving seat. A sell-off in European bond rates has set the tone for the overnight trading session, led by poor demand at a 30-year French bond auction and supported by the release of minutes from the last ECB policy meeting. Recall, in that meeting the ECB removed its easing bias on rates. As it turned out, it also discussed removing the easing bias on its asset purchase programme, but was too chicken, fearing a market meltdown. The minutes showed "it was argued that the improved economic environment with vanishing tail risks, in principle, suggested also revisiting the easing bias with respect to the asset-purchase program", but "even small and incremental changes in the communication could be misperceived as signaling a more fundamental change in policy direction" that would lead to an unwarranted tightening in financial conditions. It seems only a matter of time before the ECB continues along its path of guiding towards less policy accommodation.

France's 10-year rate rose by 10bps to 0.91% while Germany's 10 year rate closed at an 18-month high, rising by 9bps to 0.56%. Germany's 10-year rate now seem to have broken out of the 25bp range it has been oscillating in for the past eight months, setting the scene for a much more significant blow-out over coming months. All this is spilling over into other markets, with the US 10-year rate rising by 5bps to 2.37%. The 2-year rate is up by less than 1bp, so a clear steepening bias remains the theme. Earlier, the US 10-year rate hit 2.39%, but softer than expected ADP employment data helped knock the rate down a couple of basis points. The bond market now looks towards tonight's US employment report and the release of Fed Chair Yellen's testimony to Congress that she will be delivering next week. In our view the balance of risk remains skewed towards higher bond rates in the weeks ahead.

Higher euro-area rates have helped support EUR, driving a steady upward path and allowing it to revisit the 1.14 handle. EUR is currently up 0.6% to 1.1420. Trading in GBP has been choppy, but the bias has been upward, rising by 0.3% to 1.2970. The BOE's McCafferty gave a radio interview and he outlined a tightening bias, saying monetary policy has its "foot on the accelerator" and that the bank may need to take a bit of the stimulus away. He sees modest rate rises ahead over coming years.

The NZD and AUD are at the bottom of the leaderboard, not helped by the risk-off tone, with European and US equities down in the order of 0.7%, led by the bond-market sell-off. NZD is down to 0.7275, similar to the NZ close, after earlier reaching a low around 0.7245. NZD/EUR has revisited last week's low and is currently down 0.8% for the day at 0.6370. AUD has settled below the 0.76 mark and NZD/AUD is flat at 0.9590.

Oil prices remain volatile. Prices showed signs of recovery after yesterday's swoon and jumped up after data showed US crude supplies falling significantly, to their lowest levels since January. But speculative forces then took over and much of the day's gain has now been eroded. This has kicked CAD around a bit, which is now flat for the day around 1.2960.

NZ rates continued to unwind last week's sell-off, seeing falls across the swap curve in the order of 2bps, taking the 2-year rate down to 2.295% and the 10-year rate down to 3.325%. However, the overnight bond market sell-off will see upside pressure on the open. The NZ rates curve remains at the mercy of global forces, while anchored monetary policy expectations suggest a steepening bias is the bigger force at this juncture. During the local session, the Fed's Fischer gives a speech but apart from that quiet trading conditions should ensue ahead of the US employment and monetary policy reports tonight.

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Coming Up

	Period	Cons.	Prev.	NZT
US Fed's Fischer speaks				11:30
GE Industrial production (m/m%)	May	0.2	0.8	18:00
UK Industrial production (m/m%)	May	0.4	0.2	20:30
CH Foreign reserves (USDbn)	Jun	3061	3053	
US Change in nonfarm payrolls ('000)	Jun	178	138	00:30
US Unemployment rate (%)	Jun	4.3	4.3	00:30
US Average hourly earnings (m/m%)	Jun	0.3	0.2	00:30
US Average hourly earnings (y/y%)	Jun	2.6	2.5	00:30
US Fed releases Monetary Policy Report to the Congress				03:00

Source: Bloomberg, BNZ

Foreign Exchange							Equities				Commodities**			
Indicative overnight ranges (*)					Other FX		Major Indices				Price			
	Last	% Day	Low	High		Last	% Day				Last	Net Day		
NZD	0.7273	-0.2	0.7245	0.7288	CHF	0.9607	-0.3	S&P 500	2,414	-0.8	15.0	Oil (Brent)	47.96	+0.3
AUD	0.7587	-0.2	0.7577	0.7615	SEK	8.439	-0.6	Dow	21,359	-0.6	19.2	Oil (WTI)	45.38	+0.6
EUR	1.1423	+0.6	1.1331	1.1425	NOK	8.360	-0.4	Nasdaq	6,103	-0.8	25.6	Gold	1223.7	+0.2
GBP	1.2972	+0.3	1.2924	1.2984	HKD	7.811	+0.0	Stoxx 50	3,462	-0.5	25.4	HRC steel	633.0	-0.8
JPY	113.27	+0.0	113.00	113.47	CNY	6.802	-0.0	FTSE	7,337	-0.4	13.5	CRB	174.4	+0.4
CAD	1.2959	+0.0			SGD	1.382	+0.1	DAX	12,381	-0.6	32.1	Wheat Chic.	539.0	-3.8
NZD/AUD	0.9586	+0.0			IDR	13,392	+0.2	CAC 40	5,152	-0.2	26.1	Sugar	13.92	+1.5
NZD/EUR	0.6367	-0.8			THB	34.08	+0.2	Nikkei	19,994	-0.4	30.9	Cotton	75.01	+1.6
NZD/GBP	0.5607	-0.5			KRW	1,157	+0.6	Shanghai	3,212	+0.2	6.5	Coffee	129.1	-0.7
NZD/JPY	82.38	-0.2			TWD	30.59	+0.3	ASX 200	5,759	-0.1	10.2	WM powder	3150.0	+0.0
NZ TWI	78.38	-0.2			PHP	50.71	+0.1	NZX 50	7,630	+0.4	8.9	Australian Futures		
												3 year bond	98.01	-0.03
												10 year bond	97.32	-0.06
Interest Rates														
Rates		Swap Yields			Benchmark 10 Yr Bonds			NZ Government Bonds			NZ Swap Yields			
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day		Last		Last	Last		
USD	1.25	1.30	1.65	2.35	USD	2.37	0.04	NZGB 3 04/15/20	2.22	-0.02	1 year	2.08	0.00	
AUD	1.50	1.71	1.93	2.88	AUD	2.64	0.01	NZGB 6 05/15/21	2.34	-0.02	2 year	2.30	-0.02	
NZD	1.75	1.98	2.30	3.33	NZD	2.93	-0.03	NZGB 5 1/2 04/15/23	2.62	-0.02	5 year	2.84	-0.02	
EUR	0.00	0.06	-0.12	0.98	GER	0.56	0.09	NZGB 2 3/4 04/15/25	2.82	-0.03	7 year	3.08	-0.02	
GBP	0.25	0.30	0.69	1.39	GBP	1.32	0.06	NZGB 4 1/2 04/15/27	2.93	-0.03	10 year	3.33	-0.02	
JPY	-0.06	0.00	0.05	0.30	JPY	0.10	0.01	NZGB 3 1/2 04/14/33	3.26	-0.03	15 year	3.57	-0.02	
CAD	0.50	1.17	1.48	2.15	CAD	1.84	0.04	NZGB 2 3/4 04/15/37	3.48	-0.03				

* 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 07:04

Source: Bloomberg

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