

7 June 2017

## Events Round-Up

NZ: Volume of building work (q/q%), Q1: -3.5 vs. 0.3 exp.

AU: Current account balance (\$b), Q1: -3.1 vs. -0.5 exp.

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

EC: Retail sales (y/y%), Apr: 2.5 vs. 2.1 exp.

US: JOLTS job openings, Apr: 6044 vs. 5743 prev.

NZ: GDT dairy auction avg. winning price: +0.6%

## Good Morning

On a slow news day, markets have worked themselves into a bit of a tizzy, with fear over the outcome of the three key events scheduled for Thursday. This has seen global bond rates fall, demand for the safe-haven yen, and slightly softer equity markets.

Thursday brings a trifecta of key risk events – the UK election, the ECB meeting with its first likely move away from its highly accommodative policy stance, and former FBI Director Comey's testimony to the Senate intelligence committee. Traders are keen to offload some risk ahead of these events and have adopted some defensive positions. This has seen strong demand for the yen, with USD/JPY down nearly 1% to 109.40. The S&P500 has spent the whole session in negative territory, although the current fall so far is a modest 0.1%, while the VIX hasn't risen that much and sits around 10.4.

Global bonds have been bid, seeing 3-6bps falls across Europe and the US. Germany's 10-year rate is down 3.5bps to 0.25%. The US 10-year rate has reached a fresh low for the year of just under 2.13% and is currently down 4bps for the day at 2.14%. Technical factors might be in play, with the yield breaking decisively below the 200-day moving average of 2.18% and the "charts" showing a big gulf to the next main area of technical interest around 1.80%. There have also been widespread reports that China is prepared to increase its holdings of Treasuries under the right circumstances, with officials seeing them as more attractive than other sovereign debt and as the yuan stabilises.

The only data release of interest was US job openings rising to a record high in April, while hirings eased again – a sign of a tight labour market, with jobs plentiful but a shortage of qualified labour, and consistent with an unemployment rate at a 16-year low of 4.3%. Bond traders seem prepared to put aside this economic development, given the surprising lack of wage pressure

to date from a very tight labour market. However, that means the bond market will be highly sensitive to any positive inflation news that would give more clarity to the Fed's policy track ahead.

Most major currencies have risen against the USD, with the GBP a notable exception as opinion polls continue to whipsaw ahead of Thursday's election. There is some scepticism that the polls showing a close race are accurate, and this has helped the GBP "only" lose 0.1% to 1.2890. The USD major currency index is down 0.3% to reach its lowest level since early November, having now more than fully unwound the boost seen after the Presidential election.

The NZD has outperformed, possibly a reflection of traders closing short positions. It breached the 0.72 mark, reaching as high as 0.7205 early this morning, and it currently sits just below that level. The NZD continues the strong recovery seen since mid-May and further closes the gap with our short-term fair value estimate of around 0.75. The GDT dairy auction overnight was broadly in line with expectations, with the average winning price up 0.6% – the sixth consecutive positive auction – and whole milk powder prices falling 2.9%.

Alongside a soft USD, the AUD has pushed up through the 0.75 mark. Australian GDP data released today could show a negative Q1 result, with yesterday's weaker than expected net exports data adding to that risk. The key line taken out of yesterday's RBA statement was that the Bank would be looking through such a weak result, as the central bank still expects growth to head back up towards the 3% mark. NZD/AUD is up 0.4% to 0.9570, but hasn't fully recovered loss seen on the Queen's Birthday holiday and thus remains below the 0.96 mark where it began the week.

The local rates market saw falls across the board yesterday, a reflection of the global forces seen during the trading session. Swap rates were down 2-3bps across 2-10 year maturities, closing at fresh lows for the year. A development we're keeping our eye on is the fall in the 90-day bank bill rate, which fell to a record low of 1.94%. Contracting short rate spreads (LIBOR-OIS) in the US are likely behind this move. A lower US LIBOR-OIS spread and 3-month NZD basis swap makes it more attractive for local banks to raise short term wholesale funds offshore relative to issuing local bank bill paper. Further downside to NZ's 90-day rate would encourage receiving interest in 2-year swap and take that rate lower as well. Add in an RBNZ on hold for an extended period and the conditions

are ripe for further downside pressure in short term interest rates.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ Manufacturing sales volumes (q/q%)	Q1		-1.8	10:45
AU GDP (q/q%)	Q1	0.3	1.1	13:30
AU GDP (y/y%)	Q1	1.6	2.4	13:30
GE Factory orders (m/m%)	Apr	-0.3	1.0	18:00
CH Foreign Reserves	May	3,048	3,030	

Source: Bloomberg, BNZ

Foreign Exchange					Equities				Commodities**				
Indicative overnight ranges (*)					Major Indices				Price				
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day		
NZD	0.7186	+0.7	0.7155	0.7205	S&P 500	2,434	-0.1	15.4	Oil (Brent)	50.02	+1.1		
AUD	0.7510	+0.3	0.7465	0.7522	Dow	21,175	-0.0	18.2	Oil (WTI)	48.10	+1.5		
EUR	1.1272	+0.2	1.1240	1.1284	Nasdaq	6,303	+0.1	26.8	Gold	1290.8	+0.9		
GBP	1.2887	-0.1	1.2872	1.2950	Stoxx 50	3,554	-0.7	18.4	HRC steel	590.0	+1.7		
JPY	109.53	-0.8	109.23	109.89	FTSE	7,525	-0.0	20.0	CRB	178.1	+0.4		
CAD	1.3456	-0.1			DAX	12,690	-1.0	25.6	Wheat Chic.	450.3	+1.5		
NZD/AUD	0.9569	+0.4			CAC 40	5,269	-0.7	19.1	Sugar	13.98	+0.6		
NZD/EUR	0.6375	+0.5			Nikkei	19,980	-0.9	19.8	Cotton	76.02	-0.4		
NZD/GBP	0.5576	+0.8			Shanghai	3,102	+0.3	5.7	Coffee	125.6	-2.3		
NZD/JPY	78.71	-0.2			ASX 200	5,667	-1.5	5.5	WM powder	3170.0	+1.3		
NZ TWI	77.42	+0.5			NZX 50	7,495	-0.1	6.5	<b>Australian Futures</b>				
									3 year bond	98.31	-0.01		
									10 year bond	97.62	0.06		
Interest Rates					NZ Government Bonds				NZ Swap Yields				
	Rates				Benchmark 10 Yr Bonds		Last			Last			
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day		Last		Last			
USD	1.00	1.22	1.50	2.10	USD	2.14	-0.04	NZGB 3 04/15/20	2.06	-0.03	1 year	2.01	-0.02
AUD	1.50	1.73	1.75	2.62	AUD	2.37	-0.02	NZGB 6 05/15/21	2.15	-0.04	2 year	2.19	-0.02
NZD	1.75	1.95	2.19	3.16	NZD	2.72	-0.04	NZGB 5 1/2 04/15/23	2.41	-0.04	5 year	2.68	-0.02
EUR	0.00	0.06	-0.16	0.76	GER	0.25	-0.04	NZGB 2 3/4 04/15/25	2.62	-0.04	7 year	2.92	-0.03
GBP	0.25	0.29	0.50	1.09	GBP	0.98	-0.06	NZGB 4 1/2 04/15/27	2.72	-0.04	10 year	3.16	-0.03
JPY	-0.05	-0.01	0.04	0.24	JPY	0.04	-0.01	NZGB 3 1/2 04/14/33	3.02	-0.04	15 year	3.43	-0.03
CAD	0.50	1.17	1.04	1.71	CAD	1.40	-0.01						

\* 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 06:48

Source: Bloomberg

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