

8 June 2017

Events Round-Up

NZ: Manufact. sales vols. (q/q%), Q1: -0.3 vs. -1.8 prev.

AU: GDP (q/q%), Q1: 0.3 vs. 0.3 exp.

AU: GDP (y/y%), Q1: 1.7 vs. 1.6 exp.

GE: Factory orders (m/m%), Apr: -2.1 vs. -0.3 exp.

CH: Foreign Reserves (\$b), May: 3054 vs. 3,048 exp.

Good Morning

It has been another slow news day as traders await the three key risk events for the week, beginning with the ECB meeting tonight. Equity markets are fairly flat and global bond yields have nudged up from recent lows. CAD and AUD book-end the currency leader board, with CAD weaker on lower oil prices and AUD higher on economic data.

The only price action of note overnight was a chunky fall in oil prices, with WTI crude down almost 5% to below USD 46 per barrel, its lowest level in four weeks. This followed a US EIA report showing a surprising rise in oil inventories, the first in nine weeks, and rising gasoline inventories as well. USD/CAD is up 0.5% to 1.3515, making CAD the biggest loser for the day.

The AUD has managed to sustain the gain it saw yesterday, following a soft GDP outcome, but not as weak as some feared. The currency has spent most of the night hovering around the 0.7550 mark in a tight range. The NZD has also been tightly range-bound and met some resistance just above the 0.72 mark, as it did the previous session. It currently sits just under 0.72. NZD/AUD fell about 50 pips after the Australian GDP release and has since hovered around 0.9510-0.9540.

EUR saw some intra-day volatility following a Bloomberg report that the ECB's draft projections now show CPI inflation at roughly around 1.5 percent each year in 2017, 2018 and 2019, down from around the previously projected 1.6-1.7% level. This saw EUR fall 60 pips to 1.1210, before some recovery, aided by a Reuters report that predictions for economic growth were likely to be revised up by about 0.1 percentage point and that forecast changes were likely to be small. EUR is back up to around 1.1260.

It highlights how nervous traders are ahead of tonight's ECB meeting, which will represent a turning point in the Bank's policy guidance, with growth risks likely to be

raised to "balanced" from "negative". There's a bit more doubt on whether it removes the easing bias on rates, but we'd argue it's well overdue anyway. Draghi has a communication battle on his hands tonight and over coming months to contain enthusiasm for EUR and avoid the "taper tantrum" we saw in the US when the Fed backed away from its highly accommodative stance in 2013. We have some conviction in EUR strength through much of the rest of the year, but each ECB meeting from here represents a key risk event that needs to be traded carefully.

GBP has seen an ever-so-slightly modest upward drift through June so far, ahead of the UK general election where polls open tonight. It has nudged up a bit further to 1.2950. A Bloomberg survey, showed that GBP is expected to rise to 1.31 on a large Conservative win, show little change on a small majority win for the Conservatives, plunge to 1.2350 on a hung Parliament or fall to 1.25 on a Labour party win. As I write, yet another opinion poll has flashed across the screen with the Conservatives showing a 10 point lead over Labour. Bloomberg's "poll of polls" shows an average 8 point lead for the Conservatives.

In the rates space, there isn't much to report, other than global yields have nudged up a bit after recent falls. Germany's 10-year rate is up 2bps to 0.27% while the US 10-year rate is up 3bps to 2.18%, back to its 200-day moving average. The rise in US rates might be just a case of exhaustion in the buying pressure on Treasuries or that the market sees tonight's testimony to a Senate committee by former FBI Director Comey as less of a risk event, with a draft of his testimony already circulating. Our view on US Treasuries is that they are still look a little over-bought, meaning a skewed bias towards the upside for yields on any positive news.

NZ rates were slightly lower across the curve yesterday, with the 2-year swap rate down 1bp to 2.185% and the 10-year rate down 2.5bps to 3.14%, both at fresh lows for the year. This was some achievement in the face of upward pressure to Australian and US rates during the trading session and we'd expect some reversal of that move today at the long end.

jason.k.wong@bnz.co.nz

Coming Up

	Period	Cons.	Prev.	NZT
AU Trade balance (\$b)	Apr	2.0	3.1	13:30
NZ NZ plans to sell \$100m 2035 IL bonds				14:05
CH Imports (\$, y/y%)	May	8.3	11.9	
CH Exports (\$, y/y%)	May	7.2	8.0	
GE Industrial production (m/m%)	Apr	0.5	-0.4	18:00
EC ECB Deposit Facility Rate		-0.4	-0.4	23:45
EC ECB asset purchase target (€b)	Jun	60	60	23:45

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	0.7191	+0.1	0.7171	0.7207	CHF	0.9651	+0.3	S&P 500	2,433	+0.1	15.2	Oil (Brent)	48.25	-3.7
AUD	0.7548	+0.6	0.7531	0.7566	SEK	8.689	+0.3	Dow	21,177	+0.2	18.1	Oil (WTI)	45.89	-4.8
EUR	1.1257	-0.2	1.1204	1.1282	NOK	8.490	+0.4	Nasdaq	6,293	+0.3	26.8	Gold	1284.7	-0.7
GBP	1.2952	+0.3	1.2888	1.2967	HKD	7.795	+0.0	Stoxx 50	3,549	-0.2	16.7	HRC steel	589.0	+1.6
JPY	109.83	+0.4	109.12	109.88	CNY	6.796	+0.0	FTSE	7,479	-0.6	19.0	CRB	175.8	-1.3
CAD	1.3512	+0.4			SGD	1.383	+0.2	DAX	12,672	-0.1	23.2	Wheat Chic.	459.3	+2.1
NZD/AUD	0.9527	-0.4			IDR	13,303	+0.0	CAC 40	5,266	+0.2	17.6	Sugar	14.14	+1.1
NZD/EUR	0.6388	+0.3			THB	34.02	+0.2	Nikkei	19,985	+0.0	18.7	Cotton	75.79	-0.3
NZD/GBP	0.5552	-0.2			KRW	1,124	+0.6	Shanghai	3,140	+1.2	7.3	Coffee	125.8	+0.2
NZD/JPY	78.98	+0.5			TWD	30.10	-0.0	ASX 200	5,667	-0.0	5.5	WM powder	3170.0	+0.0
NZ TWI	77.43	+0.0			PHP	49.49	-0.1	NZX 50	7,468	-0.4	6.8	Australian Futures		
											3 year bond	98.24	-0.03	
											10 year bond	97.57	-0.05	
Interest Rates					NZ Government Bonds				NZ Swap Yields					
Rates		Swap Yields		Benchmark 10 Yr Bonds		Last			Last					
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day								
USD	1.00	1.22	1.52	2.14	USD	2.18	0.03	NZGB 3 04/15/20	2.05	-0.01	1 year	2.01	0.00	
AUD	1.50	1.74	1.79	2.65	AUD	2.38	0.01	NZGB 6 05/15/21	2.14	-0.02	2 year	2.19	-0.01	
NZD	1.75	1.96	2.19	3.14	NZD	2.70	-0.01	NZGB 5 1/2 04/15/23	2.40	-0.02	5 year	2.67	-0.02	
EUR	0.00	0.06	-0.17	0.76	GER	0.27	0.02	NZGB 2 3/4 04/15/25	2.60	-0.02	7 year	2.90	-0.02	
GBP	0.25	0.29	0.51	1.09	GBP	1.00	0.02	NZGB 4 1/2 04/15/27	2.70	-0.01	10 year	3.14	-0.02	
JPY	-0.04	-0.01	0.04	0.23	JPY	0.05	0.01	NZGB 3 1/2 04/14/33	3.01	-0.02	15 year	3.40	-0.02	
CAD	0.50	1.17	1.04	1.71	CAD	1.41	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 06:54

Source: Bloomberg

Contact Details

New Zealand	Jason Wong	Senior Market Strategist	+(64 4) 924 7652
Australia	Ray Attrill	Head of FX Strategy	+(61 2) 9237 1848
	Rodrigo Catril	Currency Strategist	+(61 2) 9237 7109
London	Nick Parsons	Head of Research, UK & Europe	+(44 0) 20 7710 2993
	Gavin Friend	Senior Market Strategist	+(44 0) 20 7710 0898

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