

8 May 2017

Events Round-Up

NZ: RBNZ 2yr inflation exp. (%), Q2: 2.17 vs. 1.92 prev.
 US: Chge in nonfarm payrolls ('000), Apr: 211 vs. 190 exp.
 US: Unemployment rate (%), Apr: 4.4 vs. 4.6 exp.
 US: Average hrly earnings (m/m%), Apr: 0.3 vs. 0.3 exp.
 US: Average hrly earnings (y/y%), Apr: 2.5 vs. 2.7 exp.

Good Morning

Early reports this morning suggest that Macron has decisively beaten Le Pen by about 65-35% in the second round of the French Presidential election, as expected. This sets the scene for positive risk sentiment as the new week begins.

Last week ended with a goldilocks US employment report, with strong employment but soft wage inflation. This did no favours to the USD, but helped contained UST yields, while the S&P500 made its highest ever close.

US employment rebounded slightly more than expected in April, driving the unemployment rate to 4.4%, its lowest level in ten years. Downward revisions to wage data ensured that the annual gain of 2.5% was no higher than it was 18 months ago. And so the puzzle of suppressed wage inflation – a global phenomenon – continued.

Market pricing of a Fed rate hike in June nudged up to a 76% chance, although there was generally little reaction to the data in the rates market, no doubt influenced by the mixed data. Some 37bps of hikes were priced through to the end of the year, up just half a basis point. The 2-year Treasury rate ended the day up half a basis point to 1.31% while the 10-year rate closed half a basis point lower at 2.35%, little changed from the NZ close.

Fed Chair Yellen and vice-chair Fischer didn't comment on the US economic outlook in their scheduled speeches. In an interview after his speech, San Francisco Fed President Williams (non-voter) said his outlook for three or four rate increases in 2017 hasn't shifted. In his speech he argued that the Fed and other central banks should adopt price-level targeting. This would allow central bankers to guide inflation above their targets for a time to make up for past undershoots, or vice versa.

In the currency market, the USD steadily fell after the employment report. A modest recovery in oil prices after a chunky fall over recent days helped support CAD and

NOK. There was talk of OPEC extending its production controls for a further six months, with this week's 6+ % fall in oil prices likely to encourage such a move.

The NZD ended the week on a healthier note, closing up 0.7% for the day at 0.6920. As we've previously noted, the NZD looked oversold, falling against the trend of supporting fundamental factors such as near-record terms of trade. The fact that the RBNZ's measure of 2-year inflation expectations rose 25bps to 2.17% did the currency no harm. The Bank is likely to publish a much higher inflation track in this week's MPS, after actual inflation came in much higher than the Bank expected, and it factors in variables like the improved terms of trade and weaker NZD. That will support a higher rate track earlier than the Bank previously projected.

With the NZD outperforming on Friday, it was higher on all the major cross rates. NZD/AUD drove up through the 93 mark, closing the week around 0.9320, as further falls in iron ore prices kept the AUD soft.

EUR touched 1.10 and ended the week around that mark ahead of the second round of the French presidential election. It probably would have moved higher, but traders were reluctant to go into the weekend with long positions in case of a shock Le Pen victory that could have sent EUR careering towards parity.

The yen was the weakest of the majors as it continues to unwind the strong rally seen mid-March when geopolitical fears escalated. NZD/JPY ended the week around 78.

The start to the week should be fairly quiet. There was little change in local rates on Friday and the short end of the curve should remain in a tight range until Thursday's RBNZ MPS.

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Coming Up

		Period	Cons.	Prev.	NZT
AU	Building approvals (m/m%)	Mar	-4.0	8.3	13:30
AU	NAB business conditions	Apr		14	13:30
GE	Factory orders (m/m%)	Mar	0.7	3.4	18:00
CH	Imports (USD y/y%)	Apr	18.0	20.3	
CH	Exports (USD y/y%)	Apr	11.3	16.4	
CH	Trade Balance (USDb)	Apr	35.2	23.9	

Source: Bloomberg, BNZ

Foreign Exchange								Equities				Commodities**			
Indicative overnight ranges (*)					Other FX			Major Indices				Price			
	Last	% Day	Low	High		Last	% Day		Last	% Day	% Year		Last	Net Day	
NZD	0.6920	+0.7	0.6862	0.6929	CHF	0.9877	+0.1	S&P 500	2,399	+0.4	16.6	Oil (Brent)	49.10	+1.5	
AUD	0.7424	+0.2	0.7368	0.7427	SEK	8.796	-0.4	Dow	21,007	+0.3	18.4	Oil (WTI)	46.22	+1.5	
EUR	1.0998	+0.1	1.0950	1.1000	NOK	8.593	-1.0	Nasdaq	6,101	+0.4	28.8	Gold	1226.9	-0.1	
GBP	1.2982	+0.5	1.2901	1.2984	HKD	7.784	+0.0	Stoxx 50	3,659	+0.9	24.6	HRC steel	610.0	+0.0	
JPY	112.71	+0.2	112.09	112.81	CNY	6.903	+0.1	FTSE	7,297	+0.7	19.1	CRB	177.9	+0.5	
CAD	1.3652	-0.7			SGD	1.405	+0.3	DAX	12,717	+0.5	28.8	Wheat Chic.	442.3	+1.0	
NZD/AUD	0.9321	+0.6			IDR	13,330	+0.0	CAC 40	5,432	+0.9	26.3	Sugar	15.31	-0.4	
NZD/EUR	0.6292	+0.6			THB	34.68	+0.1	Nikkei	19,446	+0.7	20.4	Cotton	79.76	-1.3	
NZD/GBP	0.5330	+0.3			KRW	1,140	+0.6	Shanghai	3,103	-0.8	6.5	Coffee	135.7	+0.6	
NZD/JPY	78.00	+0.9			TWD	30.18	+0.1	ASX 200	5,837	-0.7	10.3	WM powder	3200.0	-0.6	
NZ TWI	75.44	+0.7			PHP	49.95	+0.1	NZX 50	7,366	-0.2	6.8	Australian Futures			
													3 year bond	98.09	-0.01
													10 year bond	97.31	0.00
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	1.00	1.18	1.60	2.29	USD	2.35	-0.01	NZGB 3 04/15/20	2.29	0.00	1 year	2.09	+0.02		
AUD	1.50	1.74	1.87	2.92	AUD	2.65	0.01	NZGB 6 05/15/21	2.44	0.00	2 year	2.32	+0.01		
NZD	1.75	1.98	2.28	3.41	NZD	3.04	0.01	NZGB 5 1/2 04/15/23	2.70	0.01	5 year	2.92	+0.01		
EUR	0.00	0.06	-0.13	0.86	GER	0.42	0.02	NZGB 2 3/4 04/15/25	2.94	0.01	7 year	3.17	+0.01		
GBP	0.25	0.32	0.59	1.21	GBP	1.12	0.00	NZGB 4 1/2 04/15/27	3.04	0.01	10 year	3.41	+0.01		
JPY	-0.06	0.00	0.03	0.22	JPY	0.02	0.00	NZGB 3 1/2 04/14/33	3.30	0.01	15 year	3.69	-0.00		
CAD	0.50	1.17	1.03	1.79	CAD	1.54	0.00								

* 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: NY Close Sat morning

Source: Bloomberg

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