

9 June 2017

Events Round-Up

- AU: Trade balance (\$b), Apr: -0.6 vs. 2.0
- CH: Imports (\$, y/y%), May: 14.8 vs. 8.3 exp.
- CH: Exports (\$, y/y%), May: 8.7 vs. 7.2 exp.
- GE: Industrial production (m/m%), Apr: 0.8 vs. 0.5 exp.
- EC: ECB Deposit Facility Rate: -0.4 vs. -0.4 exp.
- EC: ECB asset purchase target (€b), Jun: 60 vs. 60 exp.

Good Morning

Two of the three major risk events for this week have now passed with no adverse market reaction so focus now turns to the UK election, where the first exit polls will be released from about 9am. The NZD continues to outperform, while the USD has also been well bid, although currency movements have been modest. US equities are flat, while global bond yield movements have been divergent.

There was no fresh smoking gun in former FBI Director Comey's testimony to a Senate committee. It's now over to the lawyers to decide whether the President attempted to "obstruct" the course of justice, which would make his actions illegal, but the market reaction of a slightly stronger USD and slightly higher UST yields suggests no real concern that's the case.

In the much-anticipated ECB policy assessment, the central bank removed its easing bias and upgraded the risks on economic growth to 'broadly balanced' from "negative". This was the first baby step toward normalising policy, but it is likely to be a long, drawn out process. In a market where traders have been generally adding to EUR positions, the common currency fell after the news, but the movement has been modest, falling 0.3% to 1.1215, against a backdrop of a slightly stronger USD. Our London-based NAB colleagues see further incremental changes to policy guidance, including a move in September to announce a tapering of asset purchases beginning next year and some direction on the negative deposit rate by December. While normalising policy will be a pedestrian affair, these sorts of moves underpin our view of the stronger EUR on a 12-18 month view.

Earlier in the session, euro area data remained robust, with German industrial production beating expectations, showing signs of underlying strength in Europe's largest economy, while GDP in the euro area was revised up in Q1 to 0.6% q/q.

The NZD has made further gains, reaching as high as 0.7223 despite the positive USD backdrop and it currently sits just above the 0.72 mark. The NZD is up on all the crosses, with gains of between 0.2-0.6%. NZD/EUR is up to 0.6430, reaching its highest level in six weeks. The AUD has held its ground around the 0.7550 mark, seeing NZD/AUD nudge up to 0.9560.

GBP softened a little as the UK general election got underway and sits this morning at 1.2930, taking NZD/GBP to up 0.5575.

Global bond yields have diverged. Germany's 10-year rate is down 1bp to 0.25%, supported by the ECB's lack of urgency to normalise monetary policy. Italy's 10-year rate is down 13bps to 2.15%, as risks for an autumn (Northern hemisphere) election faded after a multi-party agreement on a new election law failed to hold up in Parliament. This now likely delays the election to next year. This has implications for EUR as well, as Italian elections represent a key risk event for the euro-area and is the key threat to our stronger EUR outlook.

UK's 10 year rate rose by 2bps as voters went to the polls, while higher rates are seen across the US Treasury curve, no doubt reflecting some relief that the Comey testimony didn't reveal any new twists. The US 10 rate has come off a high of 2.21% and now sits at 2.19%, up 2bps for the day. After the UK election result is out of the way, focus will turn to next week's FOMC meeting. We see more upside than downside risk to bond yields following that announcement.

Yesterday, local rates moved off their lows for the year, with swap rates up 1-2bps and government rates up 2-3bps. With NZ monetary policy on hold for an extended period it remains a fairly dull picture to report on each day and the curve remains at the mercy of global forces.

jason.k.wong@bnz.co.nz

Coming Up

	Period	Cons.	Prev.	NZT
CH CPI (y/y%)	May	1.5	1.2	13:30
CH PPI (y/y%)	May	5.7	6.4	13:30
AU Home loans (m/m%)	Apr	-1	-0.5	13:30
GE Trade balance (€b)	Apr	23.0	25.4	18:00
UK Industrial production (m/m%)	Apr	0.7	-0.5	20:30

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	0.7211	+0.2	0.7195	0.7223	CHF	0.9673	+0.2	S&P 500	2,431	-0.1	14.7	Oil (Brent)	47.89	-0.3	
AUD	0.7545	-0.1	0.7530	0.7554	SEK	8.711	+0.2	Dow	21,164	-0.1	17.5	Oil (WTI)	45.70	-0.0	
EUR	1.1219	-0.3	1.1195	1.1269	NOK	8.491	-0.0	Nasdaq	6,307	+0.1	26.8	Gold	1276.7	-1.0	
GBP	1.2932	-0.2	1.2908	1.2978	HKD	7.798	+0.0	Stoxx 50	3,564	+0.4	18.0	HRC steel	589.0	+0.0	
JPY	110.08	+0.2	109.38	110.38	CNY	6.800	+0.1	FTSE	7,450	-0.4	18.2	CRB	176.1	+0.3	
CAD	1.3504	-0.0			SGD	1.381	-0.1	DAX	12,714	+0.3	24.4	Wheat Chic.	463.3	+0.9	
NZD/AUD	0.9557	+0.3			IDR	13,298	-0.0	CAC 40	5,264	-0.1	18.3	Sugar	14.34	+1.4	
NZD/EUR	0.6427	+0.5			THB	34.06	+0.1	Nikkei	19,909	-0.4	19.4	Cotton	76.55	+1.0	
NZD/GBP	0.5576	+0.4			KRW	1,122	-0.2	Shanghai	3,150	+0.3	7.6	Coffee	126.4	+0.5	
NZD/JPY	79.38	+0.5			TWD	30.10	+0.0	ASX 200	5,677	+0.2	5.9	WM powder	3170.0	+0.0	
NZ TWI	77.73	+0.3			PHP	49.52	+0.1	NZX 50	7,459	-0.1	7.0	Australian Futures			
													3 year bond	98.235	-0.03
													10 year bond	97.55	-0.01
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			
USD	1.00	1.22	1.53	2.15	USD	2.19	0.02	NZGB 3 04/15/20	2.07	0.02	1 year	2.02	0.01		
AUD	1.50	1.73	1.78	2.66	AUD	2.40	0.02	NZGB 6 05/15/21	2.17	0.03	2 year	2.20	0.01		
NZD	1.75	1.95	2.20	3.16	NZD	2.73	0.03	NZGB 5 1/2 04/15/23	2.43	0.03	5 year	2.69	0.02		
EUR	0.00	0.06	-0.17	0.75	GER	0.26	-0.01	NZGB 2 3/4 04/15/25	2.63	0.03	7 year	2.93	0.02		
GBP	0.25	0.29	0.51	1.14	GBP	1.03	0.03	NZGB 4 1/2 04/15/27	2.73	0.03	10 year	3.16	0.02		
JPY	-0.04	-0.01	0.05	0.25	JPY	0.07	0.02	NZGB 3 1/2 04/14/33	3.04	0.03	15 year	3.42	0.02		
CAD	0.50	1.17	1.04	1.73	CAD	1.42	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 06:43

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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