

9 May 2017

Events Round-Up

AU: Building approvals (m/m%), Mar: -13.4 vs. -4.0 exp.

AU: NAB business conditions, Apr: 14 vs. 12 prev.

GE: Factory orders (m/m%), Mar: xx vs. 0.7 exp.

CH: Imports (USD y/y%), Apr: 11.9 vs. 18.0 exp.

CH: Exports (USD y/y%), Apr: 8.0 vs. 11.3 exp.

CH: Trade Balance (USD\$b), Apr: 38.1 vs. 35.2 exp.

Good Morning

The week has begun with slightly improved risk sentiment, which sees the VIX index below 10, global equity markets reaching fresh highs and higher global bond yields.

Markets are digesting the historical win by young Macron in the French Presidential election. EUR opened Monday on a stronger note, reaching as high as 1.1020 before selling pressure emerged as traders took profit, and it sits this morning at 1.0930, down 0.6% from last week's close. With the pre-election odds putting a Macron victory at more than 90%, the outcome was ultimately no surprise and attention now turns to France's Parliamentary elections, where Macron's newly named *Republique en Marche* party has a lot of work to do to have much say in the running of the government – a majority win in those elections could well be difficult to achieve.

ECB executive board member Mersch commented that the recovery in the euro area is gaining more and more traction and that the confirmation of a broadly balanced risk outlook for growth is within reach. This adds to speculation that the ECB will remove some of its dovish overtones next month, a possible first step in winding down stimulus. On a normal day, words like this might have boosted the EUR, but it has already had a strong run over the past month on such speculation and following the market-friendly first round vote in the French election.

The softer EUR has helped boost USD indices, with the major currency index up 0.5%. The USD has been further supported by a delayed reaction to Friday's strong employment report. Fed fund futures have nudged up further, putting a June rate hike probability at 80% and some 40bps of hikes are now priced into the Fed funds curve through to year-end. With key US CPI and retail sales data not due until the end of the week, Fed speakers will continue to take centre-stage ahead of those releases.

Overnight, the Fed's Mester (non-voter) said that the Fed should continue on its gradual path of raising interest rates, warning against falling behind the curve.

US Treasury rates are 2-3bps higher across the board. The 10-year rate nudged up through the 50-day moving average of 2.38%, but hasn't pushed on. We see the balance of risk weighed towards further upside to UST yields, with 2.50% in sight before the end of the quarter and a further push higher in the second half of the year. This reflects our view of the market under-pricing the risk of further Fed hikes this year and next, and a focus on the Fed's balance sheet reduction later in the year adding to the mix.

Even as Fed pricing has nudged higher, the backdrop of a positive earning season and some comfort with the economic outlook saw the S&P500 made a fresh high intra-day, although it is currently flat for the session. More notable, the VIX index has fallen to 9.7. A close at or below this level would mean the lowest close since December 1993. With bond and currency vol measures also at low levels, it does seriously question those who claim the outlook is highly uncertain. The market certainly doesn't think so and pricing of vol and risk would actually suggest a more certain outlook than usual prevails.

Ahead of the RBNZ's MPS on Thursday, the NZD is holding up well, almost managing to keep pace with the stronger USD. Last night the NZD peaked at 0.6945, but has settled this morning around 0.6915, within a few pips of last week's close, but it has risen on all the other major crosses. Yesterday, BNZ economists brought forward their rate hike projections by a few months, to February 2018 (previously May 2018) as the evidence mounts of higher inflationary pressure in NZ.

Iron ore prices continue to probe fresh lows, with the Qingdao measure down to just over \$60, now down 36% from its February high. This is keeping the AUD under pressure, along with evidence that China's growth momentum might have peaked. With the AUD down to around 0.7385, NZD/AUD has pushed up to around 0.9360. Our forecasts see further upside potential, settling around the 0.95-0.96 mark over the second half of the year.

Higher risk appetite and a generally stronger USD sees USD/JPY up to 113 and NZD/JPY up through 78.

Newsflow should remain light over the coming day, with

some passing interest in Australia retail sales data and the Budget tonight. Treasurer Morrison is expected to unveil a somewhat better budget deficit track. This should be sufficient to maintain Australia’s AAA credit rating.

If higher US Treasury rates are sustained into the NY close, then that should add some more upward pressure to NZ rates. The local swap curve closed 2-3bps higher, with 2-year swap around 2.35% and 10-year swap at 3.44%. We see upside risk to both over coming weeks and months, the former driven by a firmer NZ monetary policy outlook and the latter by global forces.

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Coming Up

	Period	Cons.	Prev.	NZT
AU Retail sales, m/m%	Mar	0.3	-0.1	13:30
AU Real retail sales, q/q%	Q1	0.5	0.9	13:30
AU Budget				21:30
GE Industrial production, m/m%	Mar	-0.7	2.2	18:00
US NFIB small business optimism	Apr	104	104.7	22:00

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	0.6915	-0.0	0.6897	0.6945	CHF	0.9983	+1.1	S&P 500	2,398	-0.0	16.6	Oil (Brent)	49.30	+0.5
AUD	0.7388	-0.5	0.7378	0.7425	SEK	8.832	+0.4	Dow	20,995	-0.1	18.3	Oil (WTI)	46.39	+0.5
EUR	1.0933	-0.6	1.0917	1.0997	NOK	8.642	+0.6	Nasdaq	6,097	-0.1	28.7	Gold	1227.6	+0.1
GBP	1.2945	-0.3	1.2930	1.2986	HKD	7.785	+0.0	Stoxx 50	3,642	-0.5	24.0	HRC steel	610.0	+0.0
JPY	113.01	+0.3	112.40	113.13	CNY	6.905	+0.0	FTSE	7,301	+0.0	19.2	CRB	178.0	+0.1
CAD	1.3693	+0.3			SGD	1.405	-0.0	DAX	12,695	-0.2	28.6	Wheat Chic.	433.5	-1.9
NZD/AUD	0.9360	+0.3			IDR	13,295	-0.3	CAC 40	5,383	+0.8	25.1	Sugar	15.38	+0.5
NZD/EUR	0.6325	+0.5			THB	34.66	-0.1	Nikkei	19,896	+2.3	22.7	Cotton	76.78	-2.9
NZD/GBP	0.5342	+0.2			KRW	1,131	-0.8	Shanghai	3,079	-0.8	8.7	Coffee	136.9	+0.9
NZD/JPY	78.15	+0.2			TWD	30.16	-0.1	ASX 200	5,871	+0.6	10.3	WM powder	3200.0	+0.0
NZ TWI	75.60	+0.1			PHP	49.88	-0.1	NZX 50	7,426	+0.8	7.9	Australian Futures		
Interest Rates					NZ Government Bonds				NZ Swap Yields					
Rates		Swap Yields		Benchmark 10 Yr Bonds										
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day	Last			Last				
USD	1.00	1.18	1.62	2.31	USD	2.37	0.02	NZGB 3 04/15/20	2.30	0.01	1 year	2.09	+0.00	
AUD	1.50	1.74	1.89	2.93	AUD	2.67	0.03	NZGB 6 05/15/21	2.46	0.02	2 year	2.35	+0.02	
NZD	1.75	1.99	2.36	3.44	NZD	3.07	0.03	NZGB 5 1/2 04/15/23	2.73	0.02	5 year	2.95	+0.03	
EUR	0.00	0.06	-0.12	0.84	GER	0.42	0.00	NZGB 2 3/4 04/15/25	2.97	0.02	7 year	3.20	+0.03	
GBP	0.25	0.32	0.59	1.23	GBP	1.15	0.03	NZGB 4 1/2 04/15/27	3.07	0.03	10 year	3.44	+0.03	
JPY	-0.05	0.00	0.03	0.23	JPY	0.03	0.01	NZGB 3 1/2 04/14/33	3.35	0.04	15 year	3.71	+0.02	
CAD	0.50	1.17	1.03	1.81	CAD	1.57	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 06:42

Source: Bloomberg

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