

1 August 2017

Events Round-Up

NZ: Building Permits MoM, Jun: 1.0 vs 6.9 prev.
JN: Industrial Production MoM, Jun P: 1.6 vs 1.5 exp.
NZ: ANZ Business Confidence, Jul: 19.4 vs 24.8 prev.
CH: Manufacturing PMI, Jul: 51.4 vs 51.5 exp.
CH: Non-manufacturing PMI, Jul: 54.5 vs 54.9 prev.
EC: Unemployment Rate, Jun 9.1 vs 9.2 exp.
EC: CPI Estimate YoY, Jul: 1.3 vs 1.3 exp.
EC: CPI Core YoY, Jul A: 1.2 vs 1.1 prev.
US: Chicago Purchasing Manager, Jul: 58.9 vs 59 exp.
US: Pending Home Sales MoM, Jun: 1.5 vs 1.0 exp.

Good Morning

There has been bucket loads of data out of the past 24 hours, but not a whole lot of news. USD weakness remains the main theme in markets, while US equities and oil are marginally higher. US yields are unchanged.

The USD remained under downward pressure into month's end, setting up what would be its fifth consecutive monthly loss and its longest losing streak since 2011. The DXY is down around 0.4% on the day, with loses concentrated against generally stronger European currencies. Overnight moves seemed more related to month-end flows than anything else although somewhat mixed US data against marginally better than expected European data played with the grain.

This all in the backdrop of persistent concerns over the Trump administration's lack of policy progress and internal upheaval. The latest is the removal of communications director, Anthony Scaramucci, this morning, after just 10 days in the job. It plays to the point the Fed's Fischer noted overnight that 'uncertainty about the outlook for government policy in health care, regulation, taxes, and trade can cause firms to delay projects until the policy environment clarifies', in speech notes he is scheduled to give in Brazil next Monday. The DXY US dollar index, at 92.9, is eyeing up May's 2016 low around 92.0, a break of which would set up more downside. USD/JPY is probing lower, currently down 0.4% at around 110.30.

EUR/USD took another leg higher overnight, blasting through 1.1800 to trade at its highest level since early 2015. The pair opens this morning close to session highs up 0.7% at around 1.1830. GBP/USD rose on the EUR's coattails sitting around 0.4% higher this morning not far

from 1.3200.

EU inflation remained low in July. The headline rate was steady at 1.3%, while the core rate edged higher to 1.2% from 1.1%. So still well under the ECB's goal of just under 2%, but enough to argue deflation risks have gone. Another small dip in the EU's unemployment rate, to a fresh 8-year low, adds to that case. But there is no urgency for the ECB to alter its plans to, in the first instance, even discuss its QE tapering plans over coming months. EU Q2 GDP data is due out tonight.

Oil traded marginally lower for most of the night, before turning higher this morning. Brent crude currently sits up 0.2% at around \$US52.60.

This set the tone for commodity currencies overnight, with NZD, AUD, and CAD all trading a touch lower against the USD before turning higher late in the session. Moves were relatively modest. NZD briefly dipped below 0.7470 before getting support from a softer USD. NZD/USD opens this morning nearly unchanged on the day at around 0.7510. NZD/EUR has dipped under 0.6350 and NZD/GBP under 0.5700 as European currencies strengthened.

AUD/USD was trading lower despite a circa 7% lift in iron ore prices, but has returned to around 0.8000 as the USD dipped and oil prices rose. Yesterday's China's PMI came in a touch under expectations, but close enough to suggest decent growth continues. NZD/AUD has been a near horizontal line overnight at around 0.9390.

Global yields were little changed overnight. US 10-year Treasury yields opened lower, then briefly nudged above 2.30%, before easing back to about unchanged on the day close to 2.29%. All quite subdued ahead of key data releases this week including the US PCE deflator and ISM manufacturing survey tonight and payrolls on Friday.

It was a similar subdued story for the local market yesterday. NZGB and swap yields moved no more than a basis point right across the curve. This as the market waits for tomorrow's Q2 labour market data and next week's RBNZ Monetary Policy Statement. NZ 2-year swap yields closed at 2.215%, NZ 5-year swap just under 2.76% and NZ 10-year swap a nudge over 3.28%.

There is nothing on the local calendar today, as we await the RBA decision at 4.30pm. The RBA is widely expected to keep its policy rate unchanged at 1.50% and remain neutral on guidance. Friday's RBA quarterly statement will provide more detail on key forecasts but shouldn't look

dramatically different.

The RBA Governor and Deputy Governor speeches over the last two weeks have given markets little reason to expect any policy guidance shift anytime soon.

Coming Up

	Period	Cons.	Prev.	NZT
CH Caixin China PMI Mfg	Jul	50.4	50.4	13:45
AU RBA Cash Rate Target		1.5	1.5	16:30
GE Unemployment Claims Rate SA	Jul	5.7	5.7	19:55
UK Markit UK PMI Manufacturing SA	Jul	54.5	54.3	20:30
EC GDP SA QoQ	2Q A	0.6	0.6	21:00
NZ Dairy Auction Avg. Winning Price MT			3387	08/02
US Personal Income	Jun	0.4	0.4	00:30
US Personal Spending	Jun	0.1	0.1	00:30
US PCE Deflator MoM	Jun	0.0	-0.1	00:30
US PCE Core MoM	Jun	0.1	0.1	00:30
US Markit US Manufacturing PMI	Jul F	53.1	53.2	01:45
US ISM Manufacturing	Jul	56.4	57.8	02:00
US Construction Spending MoM	Jun	0.5	0.0	02:00

Source: Bloomberg, BNZ

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Foreign Exchange							Equities				Commodities**			
Indicative overnight ranges (*)					Other FX		Major Indices				Price			
	Last	% Day	Low	High		Last	% Day			Last	Net Day			
NZD	0.7510	-0.1	0.7468	0.7513	CHF	0.9669	-0.2	S&P 500	2,474	+0.1	13.8	Oil (Brent)	52.65	+0.2
AUD	0.7998	+0.1	0.7961	0.7999	SEK	8.079	-0.5	Dow	21,923	+0.4	18.9	Oil (WTI)	50.16	+0.9
EUR	1.1831	+0.7	1.1723	1.1835	NOK	7.869	-0.6	Nasdaq	6,357	-0.3	23.1	Gold	1268.7	+0.0
GBP	1.3192	+0.4	1.3097	1.3200	HKD	7.811	+0.0	Stoxx 50	3,449	-0.5	15.3	HRC steel	625.0	+0.0
JPY	110.29	-0.4	110.22	110.77	CNY	6.727	-0.2	FTSE	7,372	+0.0	9.6	CRB	182.6	+0.3
CAD	1.2461	+0.2			SGD	1.355	-0.1	DAX	12,118	-0.4	17.2	Wheat Chic.	499.8	-1.2
NZD/AUD	0.9390	-0.2			IDR	13,325	+0.0	CAC 40	5,094	-0.0	14.7	Sugar	14.91	+3.8
NZD/EUR	0.6348	-0.8			THB	33.29	-0.3	Nikkei	19,925	-0.2	19.8	Cotton	70.50	+0.4
NZD/GBP	0.5693	-0.5			KRW	1,119	-0.3	Shanghai	3,273	+0.6	10.8	Coffee	139.3	+1.0
NZD/JPY	82.83	-0.4			TWD	30.21	-0.1	ASX 200	5,721	+0.3	2.4	WM powder	3235.0	-0.8
NZ TWI	79.07	-0.2			PHP	50.49	-0.1	NZX 50	7,694	+0.7	4.6	Australian Futures		
Interest Rates											3 year bond 98.03 -0.02			
											10 year bond 97.31 0.00			
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	1.25	1.31	1.60	2.24	USD	2.29	-0.00	NZGB 3 04/15/20	2.10	-0.01	1 year	2.04	0.01	
AUD	1.50	1.69	1.90	2.88	AUD	2.68	-0.01	NZGB 6 05/15/21	2.25	-0.01	2 year	2.22	-0.01	
NZD	1.75	1.96	2.22	3.28	NZD	2.99	0.00	NZGB 5 1/2 04/15/23	2.57	-0.01	5 year	2.76	-0.01	
EUR	0.00	0.06	-0.15	0.95	GER	0.54	0.00	NZGB 2 3/4 04/15/25	2.83	0.00	7 year	3.02	-0.00	
GBP	0.25	0.29	0.61	1.30	GBP	1.23	0.01	NZGB 4 1/2 04/15/27	2.99	0.00	10 year	3.28	-0.00	
JPY	-0.05	-0.01	0.04	0.26	JPY	0.08	0.01	NZGB 3 1/2 04/14/33	3.36	0.02	15 year	3.54	-0.00	
CAD	0.75	1.17	1.62	2.31	CAD	2.06	0.04	NZGB 2 3/4 04/15/37	3.59	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 07:41

Source: Bloomberg

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