

10 July 2017

Events Round-Up

GE: Industrial production (m/m%), May: 1.2 vs. 0.2 exp.
UK: Industrial production (m/m%), May: -0.1 vs. 0.4 exp.
UK: Construction output (m/m%), May: -1.2 vs. 0.7 exp.
UK: Trade balance (£m), May: -3073 vs -2500 exp.
CH: Foreign reserves (USDbn), Jun: 3056 vs. 3061 exp.
CA: Chge in employment ('000), Jun: 45.3 vs. 10.0 exp.
US: Chge in nonfarm payrolls ('000), Jun: 222 vs. 178 exp.
US: Unemployment rate (%), Jun: 4.4 vs. 4.3 exp.
US: Average hourly earnings (m/m%), Jun: 0.2 vs. 0.3 exp.
US: Average hourly earnings (y/y%), Jun: 2.5 vs. 2.6 exp.

Good Morning

Friday's focus was the US employment report but other factors stole the limelight, with CAD, GBP and JPY the biggest movers on the day. The global bond market sell-off continued, but this didn't perturb US equities, with the strong payrolls report signalling robust economic growth.

The 222k increase in US non-farm payrolls for June was stronger than expected, with upward revisions, but wage inflation remained well under control and the 2.5% annual increase was slightly weaker than expected. The strength in employment was seen to encourage the Fed to continue along its guided path of policy normalisation, which saw yields nudge higher. The 2-year rate closed less than 1bp higher at 1.40% while the 10-year rate ended the day up 2bps at 2.385%, its highest close in four weeks. The market reaction for the USD was modest as well, with the major currency index closing flat for the day.

Canada's employment report had more impact on the market, with strong employment growth cementing in expectations for a hike this week. The OIS market prices in a 95% chance of a 25bps hike to 0.75%, which would officially make the Bank of Canada the second major central bank to kick off a tightening cycle. USD/CAD fell 0.8% to 1.2875, a 10-month low. NZD/CAD is down to 0.9370.

At the other end of the scale, a series of UK economic indicators were all weaker than expected – industrial production, construction and trade – driving GBP down 0.6% to 1.2890 and NZD/GBP up to 0.5650. More data like these would dampen down market expectations of a possible BoE rate hike later this year and push out the timing to early next year.

The yen lost ground after the BoJ stepped in to prevent JGB yields from rising any further during the current global bond market sell-off. It offered to purchase unlimited bonds at a fixed-rate auction. While the offer of 0.11% for the 10-year rate wasn't attractive relative to prevailing market pricing and found no takers, it signalled the bank's resolve to anchor the JGB yield curve. USD/JPY ended the day up 0.6% to 113.90. NZD/JPY broke up through 83, a 6-month high, and closed the week just under that level.

The NZD traded in a tight range apart from some volatility just after the US payrolls report and ended the day fairly flat at 0.7280. It looks like the NZD is facing headwinds after the strong mid-May to mid-June recovery. The NZD has tracked sideways in a USD 0.7200-0.7350 range for the past few weeks now. We see more chance of a break to the downside than the upside over coming months as the US dataflow improves. Positioning data for the period to early last week showed the highest number of net long NZD speculative positions in four years, with a notational position of over \$2.1bn. This skews the near term risk to the downside on any negative news for the currency.

EUR struggled to push on beyond 1.14 despite data highlighting the strength of the euro-area's economic recovery, with industrial production beating expectations in Germany, France and Spain. That data seemed to have more impact on rates, with Germany's 10-year rate closing at its highest level since the end of 2015, up 1bp to 0.57%, while French, Italian and Spanish 10-year rates were up in the order of 2-8bps. A number of members of the ECB governing council were on the wires, highlighting differing tones regarding the policy outlook. The ECB's Praet was on the dovish side, indicating that "underlying inflationary pressure remains subdued" and "we still need a long period of accommodative policy." Knot highlighted the risk of "carrying on for too long" with money printing, while Villeroy de Galhau suggested another tweak to the ECB's policy guidance "in the fall" to reflect the euro-area's upturn.

NZ rates were significantly higher on Friday, with the 2-year swap rate up 3bps to 2.32% and the 10-year rate up 8bps to 3.405%. This was driven by global forces, including higher Australian rates, and the path of least resistance remains for higher rates to come, more so at the long end of the curve.

The key focus in the week ahead is Fed Chair Yellen's testimony to the US Congress and Senate. Friday's US monetary policy report didn't contain a lot new, although

there was a restatement of plans to continue to tighten policy. There appeared to be an enhanced interest in financial stability concerns – citing stretched valuations in bond, equity, and commercial real estate prices– which was also one of the takeaways from the FOMC minutes last week. Yellen might choose to draw this out in her testimony, which would provide some rationale for higher rates even if the inflation backdrop wasn't as strong as desired..

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Coming Up

	Period	Cons.	Prev.	NZT
CH CPI (y/y%)	Jun	1.6	1.5	13:30
CH PPI (y/y%)	Jun	5.5	5.5	13:30

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	0.7281	+0.1	0.7261	0.7310	CHF	0.9640	+0.4	S&P 500	2,425	+0.6	13.9		Oil (Brent)	46.71	-2.9	
AUD	0.7601	+0.2	0.7581	0.7623	SEK	8.427	-0.2	Dow	21,414	+0.4	18.0		Oil (WTI)	44.23	-2.8	
EUR	1.1401	-0.2	1.1380	1.1440	NOK	8.368	+0.2	Nasdaq	6,153	+1.0	24.1		Gold	1209.7	-1.1	
GBP	1.2890	-0.6	1.2867	1.2973	HKD	7.812	+0.0	Stoxx 50	3,464	+0.1	22.1		HRC steel	625.0	+0.0	
JPY	113.92	+0.6	113.50	114.18	CNY	6.806	+0.1	FTSE	7,351	+0.2	11.5		CRB	172.6	-1.1	
CAD	1.2876	-0.8			SGD	1.382	+0.0	DAX	12,389	+0.1	28.7		Wheat Chic.	535.0	-0.7	
NZD/AUD	0.9579	-0.1			IDR	13,399	+0.1	CAC 40	5,145	+0.0	22.8		Sugar	14.15	+1.7	
NZD/EUR	0.6386	+0.4			THB	34.12	+0.1	Nikkei	19,929	-0.3	31.9		Cotton	69.75	+0.4	
NZD/GBP	0.5649	+0.7			KRW	1,154	-0.3	Shanghai	3,218	+0.2	7.7		Coffee	128.9	-0.2	
NZD/JPY	82.95	+0.7			TWD	30.59	-0.0	ASX 200	5,704	-1.0	9.0		WM powder	3150.0	+0.0	
NZ TWI	78.45	+0.1			PHP	50.63	-0.2	NZX 50	7,622	-0.1	8.9		Australian Futures			
														3 year bond	97.98	0.00
														10 year bond	97.26	-0.06
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	1.25	1.31	1.65	2.35	USD	2.39	0.02	NZGB 3 04/15/20	2.27	0.05	1 year	2.09	0.01			
AUD	1.50	1.71	1.95	2.94	AUD	2.73	0.09	NZGB 6 05/15/21	2.40	0.06	2 year	2.33	0.03			
NZD	1.75	1.98	2.33	3.41	NZD	3.02	0.09	NZGB 5 1/2 04/15/23	2.69	0.06	5 year	2.90	0.06			
EUR	0.00	0.06	-0.12	0.99	GER	0.57	0.01	NZGB 2 3/4 04/15/25	2.90	0.08	7 year	3.16	0.08			
GBP	0.25	0.30	0.67	1.37	GBP	1.31	-0.01	NZGB 4 1/2 04/15/27	3.02	0.09	10 year	3.41	0.08			
JPY	-0.05	0.00	0.06	0.29	JPY	0.09	-0.02	NZGB 3 1/2 04/14/33	3.35	0.09	15 year	3.65	0.09			
CAD	0.50	1.17	1.49	2.19	CAD	1.88	0.05	NZGB 2 3/4 04/15/37	3.58	0.10						

* 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: NZ close Sat morn.

Source: Bloomberg

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