

10 May 2017

Events Round-Up

AU: Retail sales (m/m%), Mar: -0.1 vs. 0.3 exp.

AU: Real retail sales (q/q%), Q1: 0.1 vs. 0.5 exp.

AU: Budget: reducing deficit track, surplus by 2020/21

GE: Industrial production (m/m%), Mar: -0.4 vs. -0.7 exp.

US: NFIB small business opt., Apr: 104.5 vs. 104.0 exp.

Good Morning

The USD and UST yields continue to head north as the market becomes more convinced of Fed hikes ahead. There have been no top tier data releases in the US this week, but Fed speakers have been in force and the general message continues to be one of little change to the economic outlook, despite the soft Q1 GDP data. The Fed's George saw risks from delaying gradual rate hikes. Both George and Rosengren favoured beginning the process of balance sheet normalisation this year.

The USD major currency index has tacked on another 0.4%. The weakest performer has been the Yen, with USD/JPY up through 114 – it has been a steady rise in the cross since the low just above 108 around mid-April. In Parliament yesterday, Governor Kuroda indicated that the BoJ needed to continue the BoJ's "powerful" monetary easing and that further adjustments of policy were possible if needed.

The positive risk sentiment environment is also not helpful for the yen. The VIX index closed at its lowest level since December 1993 yesterday. It has nudged up slightly today but remains below 10, while US equity markets flirt with fresh highs.

The AUD probed fresh lows since January after much weaker than expected retail sales data for March and the Budget last night. Some support has been found around the 0.7340 mark, down around 0.7% for the day. The market has range-traded since the Budget release. While near-term deficit projections were higher than expected as the government ramps up its infrastructure spending programme, the accounts show an eventual move into surplus by 2020/21. Importantly, it hasn't rattled the ratings agencies, with Moody's and Fitch issuing some modestly improved language that support Australia's AAA rating. A new bank levy on big bank liabilities is expected to raise over \$6b in four years. The move would encourage higher retail deposit rates and likely higher mortgage rates to protect margins.

Amidst a strong USD backdrop, the NZD has slipped below 0.69. With the NZD showing some modest outperformance on the crosses over recent days, some hot money might be lightening up on short NZD positions ahead of Thursday's MPS. It is well acknowledged that the RBNZ's previously espoused "neutral" policy stance is looking stale, and much higher inflation projections will see the Bank bringing forward projected rate hikes. Such hikes are likely to remain over a year away and well below current market pricing, but a shift in that direction would represent a turning point in the Bank's stance.

NZD/AUD has risen for the seventh consecutive day and has found some (temporary) resistance just under the 0.94 mark. A soft yen sees NZD/JPY up to 78.7. EUR continues to come off the boil following its strong run into the second round of the French Presidential election. It trades this morning down 0.5% at 1.0870. Modest NZD outperformance sees NZD/EUR up to 0.6340.

Global bond yields are higher across the board, with UK rates leading the charge, with 10-year gilts up 6bps to 1.20%. Germany's 10-year rate continues to drift higher, while US Treasury yields are about 2bps higher across the curve. Fed funds pricing for the June meeting sits just above 20bps now, implying over an 80% chance of a hike. Markets then price a better than even chance of a follow-up hike in September. The US 10-year rate has traded up through the 2.40% mark, a level not seen since the end of March. We think that the path of least resistance is for further upside in yields over coming weeks.

Ahead of Thursday's MPS, the local market prices in little chance of the RBNZ hiking rates between now and September and a good chance (about 87%) of the Bank first raising rates in February 2018. On financial market timelines, that's still a long time away. NZ's 2-year swap rate continues to nudge higher and closed yesterday at 2.355%, its highest close in about a month. Global forces continue to put upward pressure on the longer end of the curve, with the 10-year swap rate closing up 2bps to 3.46%. This is about the middle of the range for the year to date, and we see the path of least resistance over coming weeks and months being a test of the top of the range just above 3.6%.

It should be a quiet trading session today, with a light economic calendar until the RBNZ's MPS at 9am tomorrow.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ Card spending retail, m/m%	Apr	0.6	-0.3	10:45
CH CPI, y/y%	Apr	1.1	0.9	13:30
CH PPI, y/y%	Apr	6.7	7.6	13:30

Source: Bloomberg, BNZ

Foreign Exchange					Equities				Commodities**				
Indicative overnight ranges (*)					Major Indices				Price				
	Last	% Day	Low	High		Last	% Day	% Year		Last	Net Day		
NZD	0.6892	-0.2	0.6880	0.6917	S&P 500	2,398	-0.0	16.5	Oil (Brent)	48.90	-0.9		
AUD	0.7340	-0.6	0.7329	0.7366	Dow	21,000	-0.1	18.6	Oil (WTI)	46.08	-0.8		
EUR	1.0870	-0.5	1.0864	1.0932	Nasdaq	6,122	+0.3	28.9	Gold	1216.2	-0.9		
GBP	1.2925	-0.1	1.2903	1.2961	Stoxx 50	3,649	+0.2	23.5	HRC steel	610.0	+0.0		
JPY	114.29	+0.9	113.28	114.33	FTSE	7,342	+0.6	20.1	CRB	177.3	-0.5		
CAD	1.3720	+0.2			DAX	12,749	+0.4	27.7	Wheat Chic.	429.5	-0.9		
NZD/AUD	0.9390	+0.4			CAC 40	5,398	+0.9	24.9	Sugar	15.44	+0.4		
NZD/EUR	0.6340	+0.3			Nikkei	19,843	-0.3	19.8	Cotton	77.43	+0.3		
NZD/GBP	0.5332	-0.1			Shanghai	3,081	+0.1	8.8	Coffee	135.2	-1.3		
NZD/JPY	78.77	+0.7			ASX 200	5,840	-0.5	9.3	WM powder	3175.0	-0.8		
NZ TWI	75.61	+0.1			NZX 50	7,412	-0.2	7.3	Australian Futures				
									3 year bond	98.1	0.02		
									10 year bond	97.29	0.03		
Interest Rates					NZ Government Bonds				NZ Swap Yields				
	Rates				Benchmark 10 Yr Bonds		Last			Last			
	Cash	3Mth	2 Yr	10 Yr	Last	Net Day							
USD	1.00	1.18	1.62	2.34	USD	2.41	0.02	NZGB 3 04/15/20	2.32	0.02	1 year	2.10	+0.01
AUD	1.50	1.74	1.88	2.93	AUD	2.68	0.01	NZGB 6 05/15/21	2.48	0.02	2 year	2.36	+0.01
NZD	1.75	1.99	2.36	3.46	NZD	3.10	0.04	NZGB 5 1/2 04/15/23	2.76	0.03	5 year	2.98	+0.03
EUR	0.00	0.06	-0.13	0.85	GER	0.43	0.01	NZGB 2 3/4 04/15/25	3.00	0.04	7 year	3.23	+0.02
GBP	0.25	0.32	0.60	1.26	GBP	1.20	0.06	NZGB 4 1/2 04/15/27	3.10	0.04	10 year	3.46	+0.02
JPY	-0.06	0.00	0.04	0.24	JPY	0.04	0.01	NZGB 3 1/2 04/14/33	3.38	0.04	15 year	3.73	+0.01
CAD	0.50	1.17	1.04	1.86	CAD	1.62	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 07:07

Source: Bloomberg

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