

11 May 2017

## Events Round-Up

NZ: Card spending retail (m/m%), Apr: 1.1 vs. 0.6 exp.

CH: CPI (y/y%), Apr: 1.2 vs. 1.1 exp.

CH: PPI (y/y%), Apr: 6.4 vs. 6.7 exp.

## Good Morning

Commodity currencies take out the top four places in the daily leaderboard following a strong bounce in oil prices. Other currencies show little change and bond and equity markets are quiet.

The media is full of Trump's surprise sacking of FBI director Comey, but there is little impact on the market. However, distractions like this only serve to slow down any potential policy changes out of Washington.

Over a day with little on the economic calendar, US equities remain flat around historical highs and the VIX is hovering around historical lows, as a solid US earnings season draws to a close. In terms of Fed speak, the hawkish and non-voting Rosengren said that along with a gradual reduction in the level of the balance sheet, it would still be reasonable to have three rate increases over the remainder of this year. Voter Kaplan offered a more cautious tone and said that his base-case for rate hikes this year is still three, including the move in March, but he's "very cognisant" of the fact inflation pressures have been more muted. These Fed speakers had little impact on the market.

The key news overnight has been a 3½% rebound in oil prices, supported by an EIA report that showed a much larger drop in US crude inventories than expected. WTI crude trades this morning at \$47.50, still down compared to a week ago, but well up from a low of \$44 three days ago.

NOK, NZD, CAD and AUD are all up between 0.3-0.7% versus the USD. The NZD is up 0.6% to 0.6940, with an added boost as some short positions are closed ahead of the RBNZ's Statement this morning. While we expect the RBNZ to lift its projected inflation and OCR tracks, previous guidance that "monetary policy will remain accommodative for a considerable period" is likely to remain. On a wet day in Wellington, the Bank will be trying to hose down market expectations of an early-2018 rate hike, even as the Bank cautiously shifts away from its neutral bias. On the projections, a big gulf is likely to remain between current market pricing for rate hikes from early next year and the Bank's projected OCR track (a possible gentle hiking path from late-2018). With the

release over a period of thin liquidity as NY closes, some spikey NZD movements are possible.

The NZD is higher on all the key crosses. NZD/AUD is up through 0.94, reaching its highest level in three months. There has still been no word from S&P on its ratings assessment for Australia, following the budget, after Moody's and Fitch maintained their AAA rating on the sovereign.

EUR continues to lose its afterglow following the French Presidential election. It is probing a fresh two-week low and is closing in on 1.0850. This sees NZD/EUR approaching 0.64. ECB President Draghi presented to Dutch Parliament and he gave a cautious tone regarding the inflation and policy outlook. While he recognised the uplift in growth he noted that "underlying inflation pressures continue to remain subdued and have yet to show a convincing upward trend." Draghi said that changes to the ECB's policy guidance and rates will only come when inflation is solid enough to continue without the support of monetary stimulus. "Is it time to exit or time to think about exit or not?" This time hasn't come yet".

GBP made a run towards 1.30, but didn't quite make it and ran into some selling pressure. It is back to flat at 1.2930, allowing NZD/GBP to reach 0.5360. USD/JPY has sustained its move up through 114 yesterday. NZD/JPY continues to show signs of a decent recovery and sits this morning at 79.3, a three-week high.

US 10-year rates have traded in a tight 2.37-2.41% range, moving to the top of that range after a soft auction. Like the VIX, bond market volatility is also low, with the MOVE index falling to its lowest level since August 2014. Spreads to European rates have widened a little, as those rates show falls of 1-4bps.

Ahead of this morning's RBNZ Statement, the 2-year swap rate trades close to the top of its range of the past couple of months. It closed down 1bp yesterday to 2.345%. With the Bank's tone likely to be one of the market being too far ahead of the (tightening) curve, upside risk to short rates today seems limited. But we don't see the market embracing the RBNZ's view of rates being on hold for an extended period, so that should mute any reaction to a seemingly dovish Statement.

Tonight sees the Bank of England give a policy update and inflation report. No change in policy is expected ahead of next month's election but the market will be looking out for a hint of a hawkish bias in the MPC comments.

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Coming Up

	Period	Cons.	Prev.	NZT
NZ RBNZ official cash rate (%)		1.75	1.75	09:00
NZ RBNZ's Wheeler news conference on MPS				10:00
NZ Food prices (m/m%)	Apr		-0.3	10:45
UK Industrial production (m/m%)	Mar	-0.4	-0.7	20:30
UK Construction output (m/m%)	Mar	0.4	-1.7	20:30
UK Bank of England bank rate (%)		0.25	0.25	23:00
UK BOE asset purchase target (£bn)	May	435	435	23:00
US PPI final demand (m/m%)	Apr	0.2	-0.1	00:30
US PPI ex food and energy (m/m%)	Apr	0.2	0.0	00:30

Source: Bloomberg, BNZ

Foreign Exchange							Equities				Commodities**			
Indicative overnight ranges (*)					Other FX		Major Indices			Price				
	Last	% Day	Low	High		Last	% Day			Last	Net Day			
NZD	0.6937	+0.6	0.6897	0.6951	CHF	1.0094	+0.2	S&P 500	2,397	+0.0	15.0	Oil (Brent)	50.16	+2.9
AUD	0.7367	+0.3	0.7352	0.7394	SEK	8.924	+0.4	Dow	20,922	-0.3	16.7	Oil (WTI)	47.27	+3.0
EUR	1.0858	-0.1	1.0853	1.0898	NOK	8.630	-0.7	Nasdaq	6,127	+0.1	27.4	Gold	1218.2	+0.2
GBP	1.2936	+0.0	1.2928	1.2988	HKD	7.787	+0.0	Stoxx 50	3,646	-0.1	22.4	HRC steel	610.0	+0.0
JPY	114.30	+0.3	113.68	114.37	CNY	6.903	-0.1	FTSE	7,385	+0.6	20.0	CRB	179.7	+1.4
CAD	1.3670	-0.4			SGD	1.411	-0.0	DAX	12,757	+0.1	27.0	Wheat Chic.	431.8	+0.8
NZD/AUD	0.9416	+0.3			IDR	13,359	+0.1	CAC 40	5,400	+0.3	24.5	Sugar	15.84	+2.6
NZD/EUR	0.6389	+0.7			THB	34.75	-0.1	Nikkei	19,900	+0.3	20.0	Cotton	76.39	-1.3
NZD/GBP	0.5363	+0.6			KRW	1,136	-0.3	Shanghai	3,053	-0.9	7.6	Coffee	136.7	+1.1
NZD/JPY	79.29	+0.9			TWD	30.26	+0.0	ASX 200	5,875	+0.6	9.4	WM powder	3165.0	-0.3
NZ TWI	76.03	+0.5			PHP	49.96	+0.0	NZX 50	7,424	+0.2	6.9	<b>Australian Futures</b>		
												3 year bond	98.11	0.00
												10 year bond	97.30	0.02
Interest Rates							NZ Government Bonds				NZ Swap Yields			
Rates		Swap Yields			Benchmark 10 Yr Bonds		Last		Last		Last			
	Cash	3Mth	2 Yr	10 Yr		Last	Net Day							
USD	1.00	1.18	1.60	2.32	USD	2.41	0.01	NZGB 3 04/15/20	2.31	-0.01	1 year	2.10	-0.00	
AUD	1.50	1.74	1.86	2.91	AUD	2.66	-0.03	NZGB 6 05/15/21	2.47	-0.01	2 year	2.35	-0.01	
NZD	1.75	1.99	2.35	3.43	NZD	3.07	-0.03	NZGB 5 1/2 04/15/23	2.75	-0.01	5 year	2.95	-0.03	
EUR	0.00	0.06	-0.13	0.85	GER	0.42	-0.01	NZGB 2 3/4 04/15/25	2.98	-0.02	7 year	3.20	-0.03	
GBP	0.25	0.32	0.59	1.24	GBP	1.17	-0.04	NZGB 4 1/2 04/15/27	3.07	-0.03	10 year	3.43	-0.03	
JPY	-0.05	0.01	0.04	0.24	JPY	0.04	0.00	NZGB 3 1/2 04/14/33	3.35	-0.03	15 year	3.69	-0.03	
CAD	0.50	1.17	1.03	1.86	CAD	1.63	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 06:41

Source: Bloomberg

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