

12 July 2017

Events Round-Up

NZ: Card spending retail (m/m%), Jun: 0.0 vs. 0.8 exp.

AU: NAB business conditions, Jun: 15 vs. 12 prev.

AU: Home loans (m/m%), May: 1.0 vs. 1.5 exp.

US: NFIB Small Bus. Optimism, Jun: 103.6 vs. 104.4 exp.

Good Morning

The USD is under pressure this morning following some damning headlines for Trump's team, and that has reduced the damage to the NZD seen over the past 24 hours. EUR has been the key beneficiary.

In yesterday's daily it was tough to string a meaningful sentence together, as nothing happened, but we did manage to slip in that Trump was in the headlines again regarding his team's conversations with Russian officials prior to the Presidential election. That didn't excite the market, but the story has now developed further, with Donald Trump Jr. releasing emails suggesting that the Russian government was trying to help Trump's election campaign. The S&P500 slipped as much as 0.6% on the news, but has since recovered to trade square. The USD majors index was on a modest upward trajectory, before falling 0.3% on the news and has yet to recover and sits 0.2% lower for the day.

EUR has been the key beneficiary of the US political news, rising to a fresh 14-month high of 1.1475 and sees NZD/EUR fall to just above 0.63. Now seems a good time to reiterate one of our highest conviction views, of NZD/EUR heading sub-0.60 before the end of the year. And an upgrade to EUR earlier this week sees NZD/EUR falling to as low as 0.56 through next year.

The NZD came under pressure yesterday following the release of soft electronic card transactions data for June, followed by a soft reading for the ANZ monthly inflation gauge. While normally those monthly releases would be ignored, we've previously mentioned the skewed downside risk to the NZD, with speculative positioning data suggesting the highest net long positions in four years. The softer data provided good cover to reduce those positions, and that saw the NZD fall from around 0.7270 to a low of 0.7202 early this morning. The Trump headlines have helped drive a reversal, with the NZD now back near the local close, approaching 0.7240.

NZD/AUD is down nearly 1% for the day to 0.9475 as soft

NZ data coincided with another strong reading from NAB's business survey, which showed the best conditions in a decade. In the background, iron ore prices have been steadily increasing as well and are now back to a 2-month high.

Alongside the soft NZD, the only two other major currencies to be weaker against the USD for the day are GBP and CAD. GBP is down 0.2% to 1.285 while USD/CAD is up 0.2% to 1.2920 even as oil prices are up 1½%. The BoE's Broadbent offered a cautious tone about the UK's economic outlook under Brexit, signalling the negative implications for trade, and the market seemed disappointed that he didn't add to the growing hawkish chorus within the BoE on monetary policy. Meanwhile, CAD's weakness can be explained by some profit-taking ahead of the Bank of Canada's policy decision tonight. The probability of a rate hike has slipped from 95% to 90% over the past couple of days and a number of economists are calling for no change (9 out of 31 analysts surveyed by Bloomberg).

In the bond market, European 10-year rates in the key markets were up about 1bp, suggesting that yesterday's reversal in trend was a one-day wonder, and this lent some support for higher US rates. But the Trump headlines have seen the 10-year Treasury rate nudge down to 2.36%, over 2bps lower relative to the NZ close. In a speech, the Fed's Brainard offered her usual dovish tone, observing that the Fed hasn't got much more to do to get to a neutral level policy rate and sounding cautious about inflation, although she seemed comfortable with the idea of some balance sheet roll-off "soon".

The focus tonight turns to Fed Chair Yellen's testimony to the US House Panel. We think the testimony will support the prevailing Fed view that it is on a clear path towards normalisation of monetary policy. Last 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.

There will also be focus on the Bank of Canada's rate decision. If the Bank chooses to forgo a widely expected

hike, then that could rock the global bond market seeing yields tumble.

NZ rates were down around 1-2bps across the swap curve, against the modest upward pressure that Australia's curve was facing, with the contrasting economic releases likely playing a role in that. We saw some receiving interest in the market, a welcome change from the generally one-sided payside pressure that has been evident for the past couple of weeks.

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Coming Up

		Period	Cons.	Prev.	NZT
AU	Westpac consumer conf index	Jul		96.2	12:30
UK	Unemployment rate (%)	May	4.6	4.6	20:30
EC	Industrial production (m/m%)	May	1.0	0.5	21:00
US	Fed Releases Chair Yellen's testimony to Congress				00:30
CA	Bank of Canada Rate (%)	Jul	0.75	0.5	02:00
US	Yellen to Appear Before U.S. House Panel				02:00

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	0.7237	-0.5	0.7202	0.7239	CHF	0.9631	-0.3	S&P 500	2,426	-0.1	13.5	Oil (Brent)	47.61	+1.5
AUD	0.7638	+0.4	0.7605	0.7643	SEK	8.398	-0.4	Dow	21,422	+0.1	17.5	Oil (WTI)	45.13	+1.6
EUR	1.1475	+0.7	1.1383	1.1480	NOK	8.283	-0.6	Nasdaq	6,188	+0.2	24.0	Gold	1216.1	+0.2
GBP	1.2849	-0.2	1.2831	1.2927	HKD	7.811	-0.0	Stoxx 50	3,464	-0.4	20.1	HRC steel	620.0	+0.0
JPY	113.86	-0.2	113.72	114.49	CNY	6.803	-0.0	FTSE	7,330	-0.5	9.7	CRB	173.9	+0.7
CAD	1.2917	+0.2			SGD	1.382	-0.2	DAX	12,437	-0.1	26.5	Wheat Chic.	553.0	+0.5
NZD/AUD	0.9475	-0.9			IDR	13,390	-0.1	CAC 40	5,141	-0.2	20.5	Sugar	13.44	-0.9
NZD/EUR	0.6307	-1.2			THB	34.06	-0.2	Nikkei	20,195	+0.6	25.5	Cotton	68.15	+0.6
NZD/GBP	0.5632	-0.3			KRW	1,151	+0.2	Shanghai	3,203	-0.3	5.0	Coffee	126.9	-1.3
NZD/JPY	82.40	-0.7			TWD	30.57	+0.0	ASX 200	5,729	+0.1	7.0	WM powder	3140.0	-0.3
NZ TWI	77.87	-0.7			PHP	50.75	-0.1	NZX 50	7,629	+0.6	7.8	Australian Futures		
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	1.30	1.63	2.31	USD	2.36	-0.02	NZGB 3 04/15/20	2.27	-0.02	1 year	2.07	-0.02	
AUD	1.50	1.70	1.95	2.93	AUD	2.75	0.01	NZGB 6 05/15/21	2.41	-0.01	2 year	2.32	-0.02	
NZD	1.75	1.97	2.32	3.41	NZD	3.03	0.00	NZGB 5 1/2 04/15/23	2.70	-0.01	5 year	2.89	-0.02	
EUR	0.00	0.06	-0.12	0.96	GER	0.55	0.01	NZGB 2 3/4 04/15/25	2.91	0.00	7 year	3.15	-0.02	
GBP	0.25	0.30	0.65	1.34	GBP	1.28	0.01	NZGB 4 1/2 04/15/27	3.03	0.00	10 year	3.41	-0.02	
JPY	-0.05	-0.01	0.06	0.31	JPY	0.10	0.00	NZGB 3 1/2 04/14/33	3.37	-0.00	15 year	3.65	-0.02	
CAD	0.50	1.17	1.47	2.18	CAD	1.87	-0.03	NZGB 2 3/4 04/15/37	3.59	-0.00				

* 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 06:55

Source: Bloomberg

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